

**CONSTRUCCIONES Y AUXILIAR DE  
FERROCARRILES, S.A.  
AND SUBSIDIARIES COMPOSING  
THE CAF GROUP (CONSOLIDATED)**

**C.A.F.**

**2019 FIRST HALF-YEAR REPORT**

JULY 2019



**INTERIM DIRECTORS' REPORT  
OF THE CONSOLIDATED GROUP  
FOR THE SIX-MONTH PERIOD  
ENDED 30 JUNE 2019**

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*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

## **1 CAF GROUP BUSINESS MODEL AND OUTLOOK**

CAF is a multinational group with over 100 years' experience offering its customers high value-added integrated transport systems and sustainable mobility at the forefront of technology.

A leader in the railway industry, it offers its customers one of the widest and most flexible product ranges in the market (both in terms of complete integrated transport systems and parts thereof), i.e. rolling stock, components, infrastructure, workshops, signalling and services (maintenance, renovation, diagnostic and financial services).

Precisely within the services area, EuroMaint, one of the top passenger fleet and locomotive maintenance companies in Sweden, joined the Group recently, corroborating this resolute line of action and bolstering the commercial and industrial presence of all our railway activities in the Nordic countries.

Within the rolling stock segment, which represents its most traditional business, CAF offers a wide range of products that includes, among others, high-speed and very high-speed trains, regional and commuter trains (diesel and electric), metros, trams and LRVs or locomotives.

With close to 90% of its revenue coming from the international market, with particular focus on Western Europe, the CAF Group has various factories in Spain, France, the US, Mexico, Brazil and the UK. The Group also has offices and rolling stock fleet maintenance centres in more than 20 countries on the five continents.

In the bus and sustainable urban mobility segment, 2019 will be the first full year of control over, and inclusion in the scope of consolidation of, Solaris Bus & Coach, which will represent significant progress in this sector, thus increasing the commitment the CAF Group has made to it for the last couple of years through the Vectia range of solutions. With more than 700 customers to its name, and the widest range of propulsion solutions (diesel, hybrid, full electric, hydrogen, gas and trolleybus), combined with Vectia's experience in integrated bus systems, maintenance and innovative sales formulae (e.g. availability payments, operating leases), a promising future can be glimpsed in a high-growth segment.

The main objective of the CAF Group's strategy until 2020 is profitable growth for the Group. To accomplish this, the CAF Group's activities in the coming years will continue to further develop the prior years' lines of action and also set in motion new areas of action, such as:

- Consolidating international growth in the core business of designing and manufacturing trains and components, by exploring traditional and alternative markets with significant potential, including, where applicable, taking advantage of joint ventures or alliances.
- Firm commitment to long-term growth in the railway services business beyond fleet maintenance, such as concession arrangements, financing, operation of railway systems, leasing, maintenance and/or refurbishing of trains, trams and locomotives, as a continuation of our most recent successes in Liege (Belgium), Parramatta and New South Wales (Sydney, Australia), in addition to the various value propositions to customers that might be derived from the marketing of digital services (fleet management, predictive maintenance, etc. through the Group's LeadMind solution, which has already been in place in various projects that are currently in the handover phase, and also through service agreements unrelated to the sale of fleets).

- Continued investment in technological development, in relation to technologies and high value-added products in all our lines of business (rolling stock, signalling, energy, data management, inspections, buses, etc.). The projects included in the European railway technology platform Shift2Rail are worth mentioning in this area.
- Achieving further progress in terms of value propositions to customers through the technical and commercial development plans of our subsidiaries: Signalling, Power & Automation, Turnkey & Engineering, Solaris, BWB, etc. This strategy aims to increase and diversify the integrated transport offering beyond the railway, thereby responding to new, sustainable social mobility needs. To do so, the technological commitment has been and is a fundamental part of the Group's strategy to gain a competitive advantage.
- Also, making further progress in the process to integrate operations with Orbital Sistemas Aerospaciales, S.L. (Noain, Navarre), a leader in the development of critical systems in the aeronautical, space and railway industries, of which the CAF Group purchased a 30% ownership interest in 2018, which can be increased based on the performance of certain business parameters. As a result of this ownership interest, the CAF Group expects to contribute to strengthening Orbital's current activities and to benefit from a state-of-the-art development base in critical systems with high security standards (hardware, software and integration, and validation services) in order to develop its own solutions in the railway industry.
- Continuing to gradually digitise our operating processes (manufacturing and provision of services) for greater efficiency and shorter project lead times (Industry 4.0), as a means guaranteeing their long-term competitiveness. Examples of this evolution include technologies such as online data capture, training and execution supported by augmented reality, 3-D printing, etc.
- Systematic and recurring application of cost containment, cost and inventory reduction and excellence programmes in the areas of quality, safety, environment and management across all Group business activities and areas, within a highly competitive environment. This includes:
  - Ongoing enhancement of platforms and construction modules (e.g. Oaris, UK and European Civity, Inneo metros, etc.).
  - Gradual expansion of the Industrial Operations Transformation Plan.
  - Optimisation of the life cost cycle (LCC) of the product, an area that increasingly defines our competitiveness.
- Lastly, making progress in fundamental areas of business management such as, for example, corporate social responsibility, shareholder and investor services, corporate risk management and, in general, practices related to good corporate governance.

In short, in an increasingly competitive market, the ongoing pursuit of solutions adapted to our customers' needs that increase their satisfaction is part of the Company's DNA, and forms part of the culture shared by all the individuals forming part of the CAF Group, thereby providing a balanced response to the needs of its stakeholders.

## 2 BUSINESS PERFORMANCE AND RESULTS

### Main indicators (\*)

| Amounts in millions of euros                           | 2019             | 2018             | Change (%) |
|--|------------------|------------------|------------|
|  | First six months | First six months |            |
| <b>Orders-</b>   |                  |                  |            |
| Backlog (**)   | 8,535            | 7,716            | 11%        |
| Orders in first six months                             | 2,085            | 407              | 412%       |
| Book-to-bill ratio                                     | 1.65             | 0.43             | 284%       |
| <b>Profit and cash flows -</b>                         |                  |                  |            |
| Revenue  | 1,266            | 943              | 34%        |
| Adjusted EBITDA  | 116              | 87               | 33%        |
| Cash-flow  | 27               | 39               | -31%       |
| Working capital expenditure (**)                       | 155              | 40               | 288%       |
| <b>Capital and liquidity management - (**)</b>         |                  |                  |            |
| Net financial debt                                     | 412              | 324              | 27%        |
| Equity attributable to the Parent                      | 712              | 752              | -5%        |
| Liquidity available                                    | 909              | 944              | -4%        |
| Net financial debt ratio / Adjusted EBITDA (12 months) | 1.79             | 1.61             | 11%        |

(\*) The indicators' definitions are included in the "Alternative Performance Measures" section.

(\*\*) "Backlog" and "Working Capital Expenditure" amounts and those under "Capital and Liquidity Management" are comparative figures relating to 31/12/18.

- The high level of new contracts in the first half year means that the backlog is at a record high and continues to guarantee the continuation of the Group's normal business activities.
- The comparison between the indicators relating to activity in the first half year (orders, revenue, adjusted EBITDA and cash-flow) and the previous period's indicators must be conducted in light of the fact that the data for the first half of 2018 do not include aggregates relating to the Solaris Group, which was acquired in September 2018.
- Adjusted EBITDA as a percentage of the Group's revenue stood at 9.2% in the first half of 2019, increasing by 33% in absolute terms due to the greater level of activity.

### 3 ROLLING STOCK SEGMENT

#### 3.1 SALES ACTIVITY

Just as the acquisition of the bus company Solaris was announced in 2018, the inclusion of the Swedish railway maintenance company EuroMaint in the CAF Group must be reported in 2019. This acquisition marks a new step in the process of transforming the company, as indicated by the Group's chairman at the Annual General Meeting held in Beasain in June.

The Group commenced 2019 with success stories as a result of years of good work. In this connection, January saw the execution of the agreement culminating the process that began in 2016 with pre-qualification, at the Walloon Regional Transport Company (SRWT), for the restructuring and modernisation of the urban public transport network in Liege, namely, the planning of a tram line within the Tram D'Arden consortium, together with Colas group companies. CAF's role in this project is to supply 20 trams and signalling, telecommunications and energy systems, and to participate in system maintenance.

A similar situation has arisen with the award, by ADIF, of the tender to draft the construction project, execute the renovation work and provide expert assistance in relation to maintenance of the Centralised Traffic Control (CTC) systems in El Berrón, Santander and Bilbao for the metre-gauge railway network, formalised in January 2019 by CAF Signalling, a CAF Group company entrusted with the design and conceptual definition of integrated railway signalling and control solutions.

On the other side of the world, CAF -through the Momentum Trains consortium, formed together with Pacific Partnership and DIF Infrastructure V- also entered into agreements for the supply and maintenance of 29 diesel units, driving simulators and the construction and fitting out of a new maintenance depot. In addition, CAF -as a member of the Momentum Trains consortium- will participate in the operation of the regional train service in New South Wales.

In the UK capital, Transport for London (TfL) awarded the CAF Group a contract to design, manufacture and supply a fleet of 43 automatic trains for the Docklands Light Railway (DLR) line. The trains will enter into operation in 2023 and will significantly improve the frequency of the service and network capacity, since they will increase the current fleet size by 10 units and boast ATO features. They will also be fitted out with modern train conveniences such as real-time visual and audio journey information, charging points for mobile devices, spaces reserved for wheelchairs and multi-use areas such as pushchair, bicycle and luggage spaces.

Also, the Flemish Transport Company, De Lijn (Belgium) has formalised the purchase of 23 trams in addition to those initially ordered in 2017. This fresh extension brings the number of trams to be supplied by CAF for the De Lijn tram service up to 71. The initial 48 units will enter into service next year on the tram line that runs along the Belgian coast, whilst this new batch of trams will be delivered as of the second half of 2022 to serve the city of Antwerp.

In neighbouring France, the operator RATP (Régie Autonome des Transports Parisiens) and Île-de-France Mobilités awarded CAF the project to refurbish 43 RER MI2N units, manufactured between 1995 and 2005. The first refurbished trains are expected to enter into service in 2020.

The Italian public railway operator Trenitalia, S.p.A. has contracted CAF to perform preventive and corrective maintenance on its fleet of 59 high-speed ETR500 trains, which provide the Frecciarossa commercial service and reach speeds of up to 300 km/h. The agreement has an initial 6-year term and envisages the possibility of a 6-year extension.



SRO (Saudi Railways Organization) and SAR (Saudi Railway Company), the two Saudi Arabian state railway companies, have each renewed the maintenance agreements for their trains covering the services between Riyadh – Qurayyat and Riyadh – Dammam, respectively, thus reaffirming the confidence placed in the Group through the acquisition of trains, the maintenance of which will be extended for a further 3-year period.

If we analyse the domestic market, we should draw attention to the order received by CAF from Bilbao Metro to perform a complete overhaul of its series 500 bogies. Renfe has also selected CAF to maintain its series 446 and Civia Cercanías Madrid commuter trains for the next 4 years. The orders will be executed by Actren, an investee of Renfe and CAF.

Lastly, on a more technological level with respect to train manufacturing, refurbishment and maintenance, we should point out that the UK Northern franchise has awarded CAF the contract for a real-time remote monitoring system and CBM (Condition-Based Maintenance). The project consists of supplying the Real Time Functionality and LeadMind Advanced Analytic for the 101 Civity UK regional trains that CAF has begun to deliver and for the Legacy Fleet Class 170 and 158. A total of 431 cars will be monitored. LeadMind is CAF's new digital platform that offers a new generation of connected trains and more competitive services for operators and maintainers of the railway industry through the collection, storage, processing and analysis of data. It is a modular, open and scalable product that can be tailored to the customer's needs, and it presents the information in a user-friendly format to support the decision-making process.



### 3.2 INDUSTRIAL ACTIVITY

A total of 490 cars were manufactured in the first half of 2019.

This period saw the completion of manufacturing projects, such as the contract for 6 trams for the city of Newcastle (Australia), the last of which was finished.

Additionally in this period, the following units were manufactured: 5 LRV-type trains for the city of Boston, 24 trains, in two unit types, for the Dutch operator Nederlandse Spoorwegen, 13 push-pull cars of different types for Caledonian (Scotland), 3 high-speed trains for the Norwegian customer Flytoget and 6 EMU (Electrical Multiple Unit) class train units of the 12 ordered by the UK customer TransPennine Express, a push-pull train with a cabin for the same customer and 11 of the 18 trains ordered under the agreement with the Quito Metro.

In addition to the above, CAF also manufactured the following units for the UK market: 14 EMU class trains for the customer Northern-Arriva, 8 of which are 3-car units, whilst the remaining 6 are 4-car units. In the DMU (Diesel Multiple Unit) class, 17 trains of two different types, namely, 2 and 3-car units, 1 train being of the first type whilst the remaining 16 were of the second type, were manufactured for the same customer.

Other projects merit a mention in this connection, namely, the agreement with the Algiers Metro, in respect of which 4 of the 12 trains ordered were manufactured, 3 9-car trains for line 1 of the Mexico City metro and the first 3 trams for the city of Amsterdam.

Manufacturing activity in this period was completed with the commencement of manufacturing projects under more recent agreements, such as that entered into with the Brussels metro for the delivery of 22 units, the 9 tram-trains for the German city of Schönbuchbahn and the 20 trams for the city of Stockholm.

The most important products manufactured in 2019 were as follows:

| <b>No. of Cars</b>   |            |
|--|------------|
| High-speed for Flytoget .....                                    | 12         |
| Long-distance Amtrak cars .....                                  | 4          |
| Long-distance for Caledonian.....                                | 13         |
| Medium-distance TransPennine Express cars and driving cabs ..... | 5          |
| Medium-distance TransPennine Express EMUs .....                  | 30         |
| Medium-distance Northern-Arriva EMUs (3-car units) .....         | 24         |
| Medium-distance Northern-Arriva EMUs (4-car units) .....         | 24         |
| Medium-distance Northern-Arriva DMUs (2-car units) .....         | 2          |
| Medium-distance Northern-Arriva DMUs (3-car units) .....         | 48         |
| Commuter trains for NS (3-car units) .....                       | 36         |
| Commuter trains for NS (4-car units) .....                       | 48         |
| Quito Metro .....  | 66         |
| Algiers Metro .....  | 24         |
| Mexico City metro Line 1.....                                    | 27         |
| LRV for Boston.....  | 15         |
| Trams for Utrecht (5-module units).....                          | 40         |
| Trams for Utrecht (7-module units).....                          | 7          |
| Trams for Newcastle.....   | 5          |
| Trams for Luxembourg .....                                       | 21         |
| Trams for Amsterdam .....  | 15         |
| Trams for Kansas .....   | 3          |
| Trams for Mauritius .....  | 21         |
| <b>TOTAL .....</b>   | <b>490</b> |

**BOGIES**

With mechanic-welded chassis..... 712

**WHEEL SETS AND COMPONENTS UNITS – (MiRA)-**

Assembled axles (power car + push-pull car) .....2,357  
Loose axle bodies..... 4,418  
Monoblock wheels ..... 39,064  
Elastic wheels ..... 991  
Couplers ..... 582  
Gear units ..... 1,581  
Bandages..... 548

### 3.3 R&D+i ACTIVITY

With respect to CAF and CAF R&D, the CAF Group's Innovation Plan for 2019-2020 was approved. This plan includes a total of 192 projects - 83 in the corporate R&D Plan and 109 distributed among the Product Development Plans of the following business lines: Vehicles, Rail Services, MiiRA, CAF Power & Automation, CAF Signalling and CETEST.

The aforementioned projects obtained financial support for R&D activities from the following entities:

- Provincial Government of Guipúzcoa
- Basque Autonomous Community Government
- Ministry of Economy and Competitiveness
- Ministry of Industry, Energy and Tourism
- European Commission

The 2019-2020 Innovation Plan launched and to be implemented in 2019 fostered projects involving CAF, CAF R&D and various subsidiaries, continuing the close level of collaboration achieved with technology centres and universities.

The projects included in the 2019-2020 Innovation Plan encompassed the following fields:

- Specific rolling stock products
- Digital Train, which comprises projects using Big Data technologies to gather and process operational data for use in product and maintenance enhancements
- Energy management and ecodesign, comprising projects relating to the reduction and optimisation of energy consumption in trains and in the system as a whole, energy capture and storage in various media, etc.
- Signalling (on-board and fixed)
- Traction
- Autonomous vehicle
- Virtual validation and certification
- Specific products and developments using basic rolling stock technologies, traction, wheel sets and axles, gear units, couplers, control and communications, maintenance, etc.

All of the above combined the execution of projects aimed at assimilating new technologies with the development of products based on such technologies and strategic projects.

The CAF Group participates in strategic projects both individually and jointly at state level and as part of the European Union's Horizon 2020 framework programme. Noteworthy projects include:

- SMART TRAIN, which is part of CAF's strategic digitization initiative and is aimed at developing a new generation of more competitive trains and services through the digitally secure capture, storage, processing and advanced analysis of all the train operations data.
- UNIMODEL, a joint two-year project aimed at developing a universal cost model methodology (UCM) to calculate the overall cost of running the vehicle on the tracks, reduce life cycle costs (LCCs) and analyse the impact on costs of introducing innovative technologies to the rolling stock.
- AROSS, focused on developing prediction, monitoring and diagnosis solutions for the key components of rolling stock bogie, suspension and braking systems, which will allow for useful-life optimisation and advanced management of these components.
- SHIFT2RAIL. As a founder member of the Shift2Rail JU (Joint Undertaking), which promotes rolling stock R&D activities as part of the Horizon 2020 programme, CAF is

involved in various technology development projects (FINE 1, X2RAIL 1, PIVOT, FR8RAIL 1, IMPACT1, IMPACT2, CONNECTA 2, PINTA 2, X2RAIL 1, X2RAIL 2, X2RAIL 3, PLASA 2, FR8RAIL 2) which are scheduled to continue until 2024.

The most significant engineering projects undertaken in the first six months of 2019 were as follows:

- Diesel and electric units for Northern-Arriva (UK)
- Electric units for TransPennine Express-First Group (UK)
- LRV for Boston and Maryland Metro (US)
- Push-pull cars for Caledonian and TransPennine Express-First Group (UK)
- Units for Toluca (Mexico)
- Mexico City metro Line 1
- Trams for Canberra and Newcastle (Australia) and Amsterdam (Netherlands)
- Locomotives for RATP (France)
- Electrical multiple units for Schönbuchbahn (Germany)
- Automated metro for STIB (Brussels)
- DMUs for West Midlands Trains (UK)
- Naples Metro (Italy)
- LRVs for Manila (Philippines)
- Barcelona Metro (Spain)
- Amsterdam Metro (Netherlands)
- Trams for Oslo (Norway) and Lund (Sweden)
- Extension of the tram order for Freiburg
- Trams for Liege
- DMUs for Wales & Borders (Keolis)

The following projects entered into service in 2019:

- Intermediate cars and refurbishment of trains for NIR
- Trams for Parramatta
- Refurbishment of units for the Medellín Metro
- Additional Civity units for NS (the Netherlands)
- De Lijn trams (Antwerp)
- Metro units for the Docklands (London)
- DEMU Long Regional for Transport for New South Wales (TfNSW)

## 4 SOLARIS

In the first half of 2019 Solaris delivered a total of 638 buses and trolleybuses, of which 247 were delivered to Polish customers.

Most of the remaining 391 vehicles were delivered to Germany (122), Belgium (90), Romania (29), Lithuania (29), Czech Republic (29), Estonia (20), Italy (14), Norway (12), Switzerland (12) and Austria (11).

Buses with alternative propulsion systems (in particular hybrid and electrical systems) are becoming an increasingly important part of Solaris's sales and products. In the first half of 2019 a total of 43% of all contracts concluded by the company involved the supply of low- or zero-emission vehicles.

Solaris entered into various significant agreements in 2019, the most notable of which are as follows:

- In Germany, Berlin's main public transport company, BVG, ordered 90 12-metre electric buses from Solaris for use in the city. The contract amounts to over EUR 60 million and is divided into various stages; the first bus will be delivered at the end of 2019, while the rest will be delivered over the course of 2020. The CAF Group's Polish manufacturer had already supplied 35-zero emission buses to BVG. The most recent contract will increase the fleet of electric Solaris vehicles operated by BVG to 125 units.
- In France, the most noteworthy agreements were for the supply of 22 trolleybuses to St-Étienne, which will be delivered between 2019 and 2022, and the supply of Urbino 8.9 LE electric buses to Paris's public transport operator, RATP.
- Azienda Trasporti Milanesi (ATM) awarded Solaris one of the largest contracts it had won to date and the largest electric bus manufacturing project in Europe. Solaris will supply up to 250 Urbino 12 electric buses for approximately EUR 192 million, the first batch of 40 of which it plans to deliver starting in June 2020. With this project, ATM demonstrates its commitment to phasing out Milan's diesel vehicles and Solaris strengthens its position as the leading European manufacturer of electric buses.
- Also worthy of note is the agreement entered into in July 2019 with Warsaw's public transport operator, Miejskie Zakłady Autobusowe w Warszawie (MZA), for the supply of 130 zero-emission articulated Urbino 18 electric buses, which includes a seven-year warranty. This order amounts to approximately EUR 100 million and is the largest of its kind in Europe, which will help Solaris consolidate its position as the European leader in electromobility.

Solaris rolled out two new products in the first half of 2019. The first was the Urbino 12 Hydrogen Electric, unveiled at the UITP Global Public Transport Summit held in Stockholm in June 2019. Coming almost a decade after the unveiling of Solaris's first e-bus, the Urbino 12 Hydrogen supplements Solaris's range of zero-emission buses and runs by converting hydrogen to electrical energy that feeds directly to the vehicle's propulsion system. These hydrogen-powered buses are an eco-friendly solution and can cover hundreds of miles. They will supplement Solaris's battery-powered and Trollino series buses, both of which will benefit from the technological advancement in electric propulsion systems and components.

Following this launch, Solaris has received its first orders for hydrogen buses in the first half of 2019. The city of Bolzano in Italy has been the first to order Solaris Urbino 12 Hydrogen buses, with an agreement for 12 units to be delivered in 2021, including an eight-year service and maintenance clause.



The second vehicle was the Solaris Trollino 24, unveiled in Gdynia in June 2019. The Trollino 24 is Solaris's first ever bi-articulated trolleybus, sporting two drive axles and measuring 24 metres in length. Ultimately, it will serve as a blueprint for the production of trolleybuses, as well as electric and hybrid buses.

The growing importance of buses with alternative propulsion systems to Solaris's sales strategy is consistent both with its long-term business development plan and the CAF Group's electromobility strategy. It is estimated that within the next decade the low- or zero-emission city bus segment will grow to 80% of the entire city bus market, mainly at the expense of conventional propulsion systems. Solaris is well prepared for this change; as its recent commercial successes suggest, buses with alternative propulsion systems will come to constitute at least half of its output in coming years.

## 5 INVESTMENTS

Capital expenditure by the CAF Group in the first half of 2019 amounted to EUR 13,829 thousand. The most salient investments are as follows:

Its wheel sets business, MiiRA, is adapting its axle set assembly line to optimise operational processes and introducing improvements to its coupler assembly line, with the goal in both instances of increasing productivity.

The train manufacturing business is continuing the plan to transform its production model in order to increase productivity and efficiency. The most notable achievements of this plan in the first half of 2019 are the new automated installation of bogies with cutting-edge technology, the remodelling of the structure manufacturing area at the Irún plant, and the new logistics and storage facilities in Zaragoza.

The CAF Group's Digital area continued its work on the digital factory plan, introducing the resources and means necessary to strengthen information capture and reporting at plants, improving the information handled by operators, optimising processes and implementing advanced planning and scheduling. The IT area is remodelling the backbone structure and increasing storage and servers due to the rise in the applications and data that CAF handles in the course of its business.

The most noteworthy investments in CAF's other areas were those made at the Beasain and Zaragoza plants, principally in the office area, due to the increased workforce and redistribution of certain departments, including Quality and Human Resources.

Also worthy of note are the investments being made by the subsidiary CAF Power & Automation, which is extending its Guipúzcoa facilities to increase production capacity, adapting its new Madrid offices and installing the equipment necessary for those offices to handle turnkey traction equipment projects. The first half of 2019 also saw CAF Track Test Center, S.L. complete the new test track in Corella, which it had commenced in 2018.

Notable investments outside Spain include the upgrades made to the Huehuetoca plant in Mexico to adapt it to the new projects to be undertaken there. These upgrades consisted mainly of acquiring and installing the equipment necessary to manufacture austenitic stainless steel structures. In addition, construction began on a new manufacturing unit at the Bagnères-de-Bigorre plant in France, which is expected to be operational by 2020 and is necessary for the work that the CAF Group plans to carry out at the plant. Lastly, the investments being made at the Solaris productions plants in Poland should be noted, the goal of which is to adapt the facilities to the expected increase in production at Solaris in the coming years.

## 6 MAIN RISKS AND UNCERTAINTIES

The CAF Group is exposed to various risks inherent to the activities it carries on and to the various countries and markets in which it operates, which might prevent the achievement of its objectives.

With the commitment to addressing this matter, the CAF Group's Board of Directors establishes the mechanisms and basic principles to appropriately control and manage risks through the General Risk Management and Control Policy. This policy, which is aligned with the Group's mission, vision and values, expresses its commitment to providing greater certainty and security in:

- achieving the strategic objectives set by the CAF Group with a controlled volatility;
- providing the utmost level of guarantees to shareholders;
- protecting the CAF Group's results and reputation;
- defending the interests of shareholders, customers and other stakeholder groups with an interest in the progress of the Group and of the community in general; and
- ensuring business stability and financial strength in a sustained way over time.

To do so, the General Risk Management and Control Policy is implemented throughout the entire CAF Group by means of an Integrated Risk Management and Control System. This system constitutes a series of rules, processes, procedures, controls and IT systems, whereby all the risks are appropriately managed by means of the following system phases and activities, which include:

- 1) establishment of the risk-management context for each activity;
- 2) identification of the various risk types (due to their corporate or business-related nature) to which the Group is exposed;
- 3) Analysis of the risks identified and what they entail for the CAF Group as a whole;
- 4) risk assessment based on the defined risk appetite;
- 5) the measures envisaged to address the identified risks; and
- 6) regular monitoring and control of current and potential risks.

The Integrated Risk Management System adopted by the CAF Group detailed above is aligned with international standards as regards the use of an effective methodology for the comprehensive analysis and management of risks and the Three Lines of Defence Model in relation to the allocation of responsibilities in the risk management and control area.

In this regard, the Board of Directors is ultimately responsible for the General Risk Management and Control Policy, and approves the appropriate procedures to identify, measure, manage and control risks. It is also responsible for establishing clear lines of authority and responsibility, and requires the existence of appropriate methodologies to measure the various types of risks and the effective internal controls to manage them. It is the body responsible for establishing and monitoring the Integrated Risk Management and Control System implemented at the Group, and verifies whether the significant risks for the Group are consistent and fall within the defined risk tolerance level.

The Audit Committee is responsible for the independent oversight or assessment of the effectiveness of the Integrated Risk Management and Control System implemented and of the procedures designed to monitor it. To do so it will be supported by the Risk Management Department and additionally by the Internal Audit Function.



The most significant risks facing the Group can be categorised as follows:

- Strategic risks: these are risks arising from the uncertainty that macroeconomic and geopolitical conditions represent, in addition to characteristics inherent to the industry and markets in which the Group operates and the strategic planning and technological decisions adopted.
- Financial risks: these arise from fluctuations in the markets, and include the following risk subcategories:
  - Market risk, which includes the following risks:
    - Interest rate risk: risk of fluctuations in interest rates that might give rise to changes in the Group's profit or loss and the value of its assets and liabilities.
    - Foreign currency risk: risk arising from fluctuations in exchange rates that have an effect on future transactions and the valuation of assets and liabilities denominated in foreign currency.
    - Commodity price risk: risk arising from changes in prices and market variables relating to commodities required in the businesses' supply chain.
  - Credit risk: this risk relates to doubtful debts, insolvency proceedings or bankruptcy or possible default on payment of quantifiable monetary obligations by counterparties to which the Group has actually granted net credit that is yet to be settled or collected.
  - Liquidity and financing risk: in relation to liabilities, it is the risk tied to the impossibility of performing transactions or breach of obligations arising from operating or financing activities due to a lack of funds or access to financial markets, either because of a drop in the Parent's credit rating or other reasons. In relation to assets, it is the risk of being unable to find, at any given time, parties to purchase an asset at the market price, or the lack of a market price.
- Operational risks: these are the risks inherent to all the Group's activities, products, systems and processes that give rise to economic losses arising from human/technological errors, inappropriate/defective internal processes, or the participation of external agents. They include risks of a corporate nature and those related to the execution of projects.
- Corporate Governance risks: arising from potential non-compliance with the Group's corporate governance system, which comprises: (i) the bylaws and other rules governing the corporate governance governing bodies; (ii) the corporate policies and rules approved by the Board of Directors of the Group's Parent; and (iii) the other internal policies, rules and implementing protocols approved by other competent bodies of the Group that govern the design, integration and operation of the governance bodies and their relationship with the Parent's stakeholders and that in turn are based on the commitment to ethical principles, best practices and transparency and are organised around the defence of the company's interests and the creation of sustainable value.
- Compliance and Regulatory risks (including tax risks and contractual requirements): these risks arise from the Group's litigation, contractual requirements, the securities market law, the data protection law, environmental legislation, applicable employment law, the criminal code, and local, national and international tax legislation, among others.

Due to its global risk scope, the Integrated Risk Management and Control System is continuously updated to include new risks that might affect the Group as a result of changes in the environment or revised objectives and strategies, as well as updates that arise from lessons learned from monitoring and controlling the system.

## 7 HUMAN RESOURCES

The changes in the consolidated Group's workforce in the first six months of 2019 were as follows:

|          | <b>Total Headcount</b> | <b>Average Headcount</b> |
|----------|------------------------|--------------------------|
| 30/06/18 | 8,852                  | 8,717                    |
| 30/06/19 | 12,065                 | 11,790                   |

The consolidated Group's average headcount increased by 35% in year-on-year terms.

## 8 ENVIRONMENTAL ACTIVITY

CAF S.A. is aware of the impact that industrial development has on the environment and, accordingly, its general corporate policy includes an environmental policy that establishes environmental protection as a corporate mission, together with ensuring that the systems, equipment and rolling stock material manufactured comply with the highest standards, not only in terms of safety and efficiency but also in terms of respect for the environment.

Since 2001 all CAF S.A.'s manufacturing plants have had environmental management systems certified to ISO 14001, which covers the organisational structure, the planning of environmental protection activities, responsibilities, environmental goals and the resources required to develop, review and update environmental policy.

Also, in May 2019 an audit to preserve the ISO 14001:2015 Environmental Management Systems Certification was successfully carried out at the Beasain, Irún and Zaragoza plants.

The efforts in this area are geared towards adopting the necessary and economically viable measures to control and, where required, to minimise important areas of environmental concern, such as emissions into the atmosphere, waste generation and energy consumption. The aim is to preserve natural resources, in line with the environmental advantages afforded by the manufacture of means of rail transport, which are viewed favourably due to their reduced environmental impact.

It should be noted that, with the aim of offering more efficient means of transport, while respecting the environment and maintaining competitiveness in an increasingly demanding market in terms of environmental respect, CAF is currently in the process of implementing the "Product Sustainability Function", introducing eco-design methodologies into the engineering processes to optimise and control environmental impacts of products throughout the lifecycle.

CAF integrates methodologies and tools into its design processes to evaluate and select the best product solutions and compositions through:

- Recyclability measurement pursuant to ISO 22628 standard, for enhanced materials selection
- Life Cycle Assessment pursuant to ISO 14040 standard, for environmental assessment of the product at each stage of its lifecycle

As a result, together with the new Environmental Product Declarations (EPDs) published in late 2015 for the Helsinki Metro and the Urbos trams for the city of Kaohsiung, six of the CAF project EPDs have now been verified and published in the International EPD System (<http://www.environdec.com>). The preliminary recyclability studies for the Northern EMU and Northern DMU projects were carried out in the first half of 2019. Also, a simplified lifecycle analysis was performed on the high-speed trains submitted for UK HS2.

## 9 EVENTS AFTER THE REPORTING PERIOD

At 30 June 2019, the Group had a firm backlog of EUR 8,535 million.

This backlog does not include the contract recently awarded to Solaris by ATM Milano (the Milan transport operator) for the supply of up to 250 electric buses for the city amounting to approximately EUR 192 million. Delivery of the first batch of 40 buses is scheduled to start in June 2020.

Also, in July 2019 the Polish public transport operator MZA (Miejskie Zakłady Autobusowe w Warszawie) selected the CAF Group's manufacturer to supply 130 electric buses for Warsaw. This contract amounts to approximately EUR 100 million.

CAF acquired the 100% of the shares of Swedish train maintenance company EuroMaint on 2 July 2019.

EuroMaint is one of the leading rail companies in Sweden, with a significant share of the Swedish market for maintenance of fleets of passenger trains, locomotives and industrial rolling stock, and carries on its business at 18 facilities and workshops around the country. EuroMaint currently has almost 1,000 employees, and generated income of approximately EUR 150 million in 2018. The estimated enterprise value of the acquired company is EUR 80 million.

## 10 ALTERNATIVE PERFORMANCE MEASURES

**Backlog:** this represents the volume of firm orders that will be recognised in the future under "Revenue" in the interim condensed consolidated statement of profit or loss. An order is considered firm only where obligations between the CAF Group and the customer arise. In the case of sales of trains and services, obligations are deemed to arise when the parties sign the agreement.

**Contracts in the first six months:** this includes firm orders in the first six months and potential modifications to orders from prior periods, and is obtained as follows: (Backlog at end of reporting period - Backlog at beginning of the reporting period + Revenue). This measure does not include the backlog acquired through business combinations in the year.

**Adjusted EBIT:** measures the Group's recurring EBIT by adding back to "Profit from Operations" any significant non-recurring item, such as the outcome of litigation arising outside the normal course of business, exceptional staff restructuring costs and, in general, any exceptional event that is not expected to recur in subsequent years.

The reconciliation of the adjusted EBIT with the Group's interim condensed consolidated financial statements for the first half of the year is as follows:

|                                      | Thousands of euros |                    |
|--------------------------------------|--------------------|--------------------|
|                                      | First half of 2019 | First half of 2018 |
| Profit from operations               | 38,096             | 66,775             |
| Outcome of litigation <sup>(1)</sup> | 38,540             | -                  |
| <b>Adjusted EBIT</b>                 | <b>76,636</b>      | <b>66,775</b>      |

(1) Detail disclosed in Note 2.d to the interim condensed consolidated financial statements.

**Adjusted EBITDA:** measures the Group's recurring EBITDA by adding back to "Adjusted EBIT" the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

**Cash flow:** cash flow is calculated by adding back to "Profit for the Period Attributable to the Parent" in the interim condensed consolidated statement of profit or loss the amounts recognised under "Depreciation and Amortisation Charge" and "Impairment and Gains or Losses on Disposals of Non-Current Assets".

**Working capital expenditure:** this is obtained by taking into consideration the following items of the interim condensed consolidated balance sheet, the breakdown of which can be obtained from the interim condensed consolidated financial statements:

- + Inventories
- + Trade and other receivables
- + Current hedging derivatives (assets)
- + Other current assets
- Short-term provisions
- Current hedging derivatives (liabilities)
- Trade and other payables
- Other current liabilities

**Net financial debt:** this is obtained by taking into consideration the items making up the calculation of this indicator, which are disclosed in Note 10-c to the interim condensed consolidated financial statements.

**Liquidity available:** this includes items defined in order to calculate net financial debt (see Note 10 to the interim condensed consolidated financial statements), "Current Financial Assets" and "Cash and Cash Equivalents" as well as credit lines and other undrawn financial balances.



**CONSTRUCCIONES Y AUXILIAR DE FERROCARRILES, S.A. AND  
SUBSIDIARIES COMPOSING THE CAF GROUP (CONSOLIDATED)  
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019**

**JULY 2019**



Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 19).  
In the event of a discrepancy, the Spanish-language version prevails.

## Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the CAF Group

### Condensed Consolidated Balance Sheets as at 30 June 2019 and 31 December 2018 (Notes 1 and 2) (Thousands of Euros)

| Assets   | Note | 30/06/19         | 31/12/18 (*)     | Equity and Liabilities   | Note       | 30/06/19         | 31/12/18 (*)     |
|--|------|------------------|------------------|--|------------|------------------|------------------|
| <b>Non-current assets:</b>                               |      |                  |                  | <b>Equity:</b>   | 10         |                  |                  |
| <b>Intangible assets</b>                                 | 5    | 316,129          | 308,362          | <b>Shareholders' equity-</b>   |            |                  |                  |
| <b>Property, plant and equipment, net</b>                | 6    | 412,051          | 365,084          | Registered share capital   |            | 10,319           | 10,319           |
| <b>Investments accounted for using the equity method</b> | 7    | 17,803           | 18,188           | Share premium  |            | 11,863           | 11,863           |
| <b>Non-current financial assets</b>                      | 7    | 529,725          | 537,061          | Revaluation reserve  |            | 39,119           | 39,119           |
| <b>Non-current hedging derivatives</b>                   | 16   | 12,430           | 10,720           | Other reserves of the Parent and of fully consolidated companies and companies accounted for using the equity method |            | 801,810          | 793,755          |
| <b>Deferred tax assets</b>                               | 19   | 151,960          | 148,548          | Profit for the period attributable to the Parent   |            | (12,512)         | 43,462           |
| <b>Other non-current assets</b>                          | 14   | 3,963            | 2,684            |  |            | <b>850,599</b>   | <b>898,518</b>   |
| <b>Total non-current assets</b>                          |      | <b>1,444,061</b> | <b>1,390,647</b> | <b>Valuation adjustments-</b>  |            |                  |                  |
|  |      |                  |                  | Hedges   | 10 & 16    | (4,701)          | (5,024)          |
|  |      |                  |                  | Translation differences  |            | (133,804)        | (141,782)        |
|  |      |                  |                  |  |            | <b>(138,505)</b> | <b>(146,806)</b> |
|  |      |                  |                  | <b>Equity attributable to the Parent</b>   |            | <b>712,094</b>   | <b>751,712</b>   |
|  |      |                  |                  | <b>Non-controlling interests</b>   |            | <b>11,942</b>    | <b>5,555</b>     |
|  |      |                  |                  | <b>Total equity</b>  |            | <b>724,036</b>   | <b>757,267</b>   |
|  |      |                  |                  | <b>Non-current liabilities:</b>  |            |                  |                  |
|  |      |                  |                  | <b>Long-term provisions</b>  | 2-d & 12   | <b>45,924</b>    | <b>6,877</b>     |
|  |      |                  |                  | <b>Non-current financial liabilities-</b>  | 11         |                  |                  |
|  |      |                  |                  | Bank borrowings and debt instruments or other marketable securities  |            | 814,509          | 766,464          |
|  |      |                  |                  | Other financial liabilities  |            | 88,777           | 47,774           |
|  |      |                  |                  |  |            | <b>903,286</b>   | <b>814,238</b>   |
|  |      |                  |                  | <b>Deferred tax liabilities</b>  | 19         | <b>173,187</b>   | <b>177,191</b>   |
|  |      |                  |                  | <b>Non-current hedging derivatives</b>   | 16         | <b>12,687</b>    | <b>11,206</b>    |
|  |      |                  |                  | <b>Other non-current liabilities</b>   | 14         | <b>87,558</b>    | <b>82,186</b>    |
|  |      |                  |                  | <b>Total non-current liabilities</b>   |            | <b>1,222,642</b> | <b>1,091,698</b> |
|  |      |                  |                  | <b>Current liabilities:</b>  |            |                  |                  |
|  |      |                  |                  | <b>Short-term provisions</b>   | 12         | <b>227,775</b>   | <b>224,970</b>   |
| <b>Current assets:</b>                                   |      |                  |                  | <b>Current financial liabilities-</b>  | 11         |                  |                  |
| <b>Inventories</b>                                       | 8    | 432,208          | 375,426          | Bank borrowings and debt instruments or other marketable securities  |            | 278,817          | 255,416          |
| <b>Trade and other receivables-</b>                      |      |                  |                  | Other financial liabilities  |            | 55,171           | 23,356           |
| Trade receivables for sales and services                 | 9    | 1,455,261        | 1,311,835        |  |            | <b>333,988</b>   | <b>278,772</b>   |
| Other receivables  | 19   | 230,440          | 205,122          | <b>Trade and other payables-</b>   |            |                  |                  |
| Current tax assets                                       |      | 9,985            | 13,633           | Payable to suppliers   |            | 715,784          | 664,865          |
|  |      | <b>1,695,686</b> | <b>1,530,590</b> | Other payables   | 9, 11 & 19 | 981,299          | 911,961          |
| <b>Current financial assets</b>                          | 7    | 96,963           | 94,293           | Current tax liabilities  |            | 16,913           | 6,447            |
| <b>Current hedging derivatives</b>                       | 16   | 10,625           | 5,849            |  |            | <b>1,713,996</b> | <b>1,583,273</b> |
| <b>Other current assets</b>                              | 14   | 8,631            | 6,343            | <b>Current hedging derivatives (Note 17)</b>   | 16         | <b>43,966</b>    | <b>64,167</b>    |
| <b>Cash and cash equivalents</b>                         | 10   | 584,723          | 602,813          | <b>Other current liabilities</b>   | 14         | <b>6,494</b>     | <b>5,814</b>     |
| <b>Total current assets</b>                              |      | <b>2,828,836</b> | <b>2,615,314</b> | <b>Total current liabilities</b>   |            | <b>2,326,219</b> | <b>2,156,996</b> |
| <b>Total assets</b>                                      |      | <b>4,272,897</b> | <b>4,005,961</b> | <b>Total equity and liabilities</b>  |            | <b>4,272,897</b> | <b>4,005,961</b> |

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 19 are an integral part of the condensed consolidated balance sheet as at 30 June 2019.



Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 19).  
In the event of a discrepancy, the Spanish-language version prevails.

**Construcciones y Auxiliar de Ferrocarriles, S.A.  
and Subsidiaries composing the CAF Group**

**Condensed Consolidated Statements of Profit or Loss**  
**for the six-month periods ended 30 June 2019 and 2018 (Notes 1 & 2)**  
**(Thousands of Euros)**

|  | Note        | (Debit) Credit  |                 |
|--|-------------|-----------------|-----------------|
|  |             | 30/06/19        | 30/06/18 (*)    |
| <b>Continuing operations:</b>  |             |                 |                 |
| Revenue  | 17          | 1,265,978       | 943,229         |
| +/- Changes in inventories of finished goods and work in progress    |             | (56,193)        | (106,344)       |
| In-house work on non-current assets                                  |             | 7,730           | 5,104           |
| Procurements   |             | (611,124)       | (362,969)       |
| Other operating income   |             | 7,957           | 3,761           |
| Staff costs  | 11, 12 & 18 | (314,480)       | (260,152)       |
| Other operating expenses   | 2.d & 12    | (222,604)       | (135,448)       |
| Depreciation and amortisation charge                                 | 5 & 6       | (38,685)        | (20,421)        |
| Impairment and gains or losses on disposals of non-current assets    | 5, 6 & 7    | (483)           | 15              |
| <b>Profit from Operations</b>  |             | <b>38,096</b>   | <b>66,775</b>   |
| Finance income   | 7           | 5,794           | 3,611           |
| Finance costs  | 11          | (35,842)        | (30,549)        |
| Changes in fair value of financial instruments                       |             | 31              | (22)            |
| Exchange differences   |             | (3,512)         | (2,847)         |
| Impairment and gains or losses on disposals of financial instruments | 7           | (8)             | 2               |
| <b>Financial Loss</b>  |             | <b>(33,537)</b> | <b>(29,805)</b> |
| Result of companies accounted for using the equity method            |             | (725)           | (705)           |
| <b>Profit before Tax</b>   |             | <b>3,834</b>    | <b>36,265</b>   |
| Income tax   | 19          | (16,878)        | (18,743)        |
| <b>Profit for the period from continuing operations</b>              |             | <b>(13,044)</b> | <b>17,522</b>   |
| Profit/Loss for the period from discontinued operations              |             | -               | -               |
| <b>Consolidated profit for the period</b>                            |             | <b>(13,044)</b> | <b>17,522</b>   |
| Attributable to:   |             |                 |                 |
| The Parent   |             | (12,512)        | 18,112          |
| Non-controlling interests  |             | (532)           | (590)           |
| <b>Earnings per share (in euros)</b>                                 |             |                 |                 |
| Basic  |             | (0.36)          | 0.53            |
| Diluted  |             | (0.36)          | 0.53            |

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 19 are an integral part of the condensed consolidated statement of profit or loss for the six-month period ended 30 June 2019.





Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 19).  
In the event of a discrepancy, the Spanish-language version prevails.

**Construcciones y Auxiliar de Ferrocarriles, S.A.  
and Subsidiaries composing the CAF Group**

**Condensed Consolidated Statements of Comprehensive Income**  
**for the six-month periods ended 30 June 2019 and 2018 (Notes 1 & 2)**  
**(Thousands of Euros)**

|   | Note | 30/06/19        | 30/06/18 (*)    |
|---|------|-----------------|-----------------|
| <b>A) Consolidated profit for the period:</b>   |      | <b>(13,044)</b> | <b>17,522</b>   |
| <b>B) Other comprehensive income - Items not reclassified to profit or loss:</b>                        |      | <b>(948)</b>    | <b>869</b>      |
| Arising from actuarial gains and losses   | 11   | (1,348)         | 406             |
| Equity instruments through other comprehensive income   | 7    | 400             | 463             |
| <b>C) Items that may be reclassified subsequently to profit or loss:</b>                                |      | <b>8,313</b>    | <b>(25,408)</b> |
| <b>Cash flow hedges:</b>  |      | <b>213</b>      | <b>3,222</b>    |
| Revaluation gains/losses  | 10   | 213             | 3,168           |
| Amounts transferred to profit or loss   |      | -               | 54              |
| <b>Translation differences:</b>   |      | <b>7,963</b>    | <b>(27,964)</b> |
| Revaluation gains/losses  | 10   | 7,963           | (27,964)        |
| <b>Share of other comprehensive income recognised for investments in joint ventures and associates:</b> |      | <b>187</b>      | <b>236</b>      |
| <i>Revaluation gains/losses-</i>  |      |                 |                 |
| Cash flow hedges  | 10   | -               | 31              |
| Translation differences   | 10   | 27              | 45              |
|   |      | 27              | 76              |
| <i>Amounts transferred to profit or loss-</i>   |      |                 |                 |
| Cash flow hedges  | 10   | 160             | 160             |
|   |      | 160             | 160             |
| <b>Tax effect</b>   | 10   | <b>(50)</b>     | <b>(902)</b>    |
| <b>Total comprehensive income (A+B+C)</b>   |      | <b>(5,679)</b>  | <b>(7,017)</b>  |
| Attributable to:  |      |                 |                 |
| The Parent  |      | (5,230)         | (6,427)         |
| Non-controlling interests   |      | (449)           | (590)           |

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 19 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2019.



Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 19).  
In the event of a discrepancy, the Spanish-language version prevails.

**Construcciones y Auxiliar de Ferrocarriles, S.A.  
and Subsidiaries composing the CAF Group**

**Condensed Consolidated Statements of Changes in Equity  
for the six-month periods ended 30 June 2019 and 2018 (Notes 1 & 2)  
(Thousands of Euros)**

|   | Equity attributable to the Parent |               |  |                |                           |                       |                         |               | Non-Controlling Interests | Total Equity |
|---|-----------------------------------|---------------|--|----------------|---------------------------|-----------------------|-------------------------|---------------|---------------------------|--------------|
|   | Shareholders' Equity              |               |  |                |                           | Valuation Adjustments | Translation Differences |               |                           |              |
|   | Share Capital                     | Share Premium | Reserve for Unrealised Fair Value Gains and Losses | Other Reserves | Net Profit for the Period |                       |                         |               |                           |              |
| <b>Balances at 31 December 2017 (*)</b>                 | <b>10,319</b>                     | <b>11,863</b> | <b>39,119</b>                                      | <b>770,489</b> | <b>42,406</b>             | <b>(6,541)</b>        | <b>(117,238)</b>        | <b>9,783</b>  | <b>760,200</b>            |              |
| Adjustments due to changes in accounting policies       | -                                 | -             | -  | 4,377          | -                         | (39)                  | -                       | -             | 4,338                     |              |
| <b>Adjusted balances at 1 January 2018</b>              | <b>10,319</b>                     | <b>11,863</b> | <b>39,119</b>                                      | <b>774,866</b> | <b>42,406</b>             | <b>(6,580)</b>        | <b>-117,238</b>         | <b>9,783</b>  | <b>764,538</b>            |              |
| <b>Total comprehensive income</b>                       | -                                 | -             | -  | 869            | 18,112                    | 2,511                 | -27,919                 | (590)         | (7,017)                   |              |
| <b>Transactions with shareholders or owners</b>         | -                                 | -             | -  | -              | (22,625)                  | -                     | -                       | (1,105)       | (23,730)                  |              |
| Dividends payable (Note 4)                              | -                                 | -             | -  | -              | (22,625)                  | -                     | -                       | (1,555)       | (24,180)                  |              |
| Transactions with non-controlling shareholders          | -                                 | -             | -  | -              | -                         | -                     | -                       | 450           | 450                       |              |
| <b>Other changes in equity</b>                          | -                                 | -             | -  | 19,838         | (19,781)                  | -                     | -                       | -             | 57                        |              |
| Transfers between equity items                          | -                                 | -             | -  | 19,781         | (19,781)                  | -                     | -                       | -             | -                         |              |
| Other variations  | -                                 | -             | -  | 57             | -                         | -                     | -                       | -             | -                         |              |
| <b>Balances at 30 June 2018</b>                         | <b>10,319</b>                     | <b>11,863</b> | <b>39,119</b>                                      | <b>795,573</b> | <b>18,112</b>             | <b>-4,069</b>         | <b>-145,157</b>         | <b>8,088</b>  | <b>733,848</b>            |              |
| <b>Balances at 31 December 2018 (*)</b>                 | <b>10,319</b>                     | <b>11,863</b> | <b>39,119</b>                                      | <b>793,755</b> | <b>43,462</b>             | <b>-5,024</b>         | <b>-141,782</b>         | <b>5,555</b>  | <b>757,267</b>            |              |
| <b>Total comprehensive income</b>                       | -                                 | -             | -  | (948)          | (12,512)                  | 323                   | 7,907                   | (449)         | (5,679)                   |              |
| <b>Transactions with shareholders or owners</b>         | -                                 | -             | -  | (8,234)        | (26,225)                  | -                     | 71                      | 6,836         | (27,552)                  |              |
| Dividends payable (Note 4)                              | -                                 | -             | -  | -              | (26,225)                  | -                     | -                       | (1,327)       | (27,552)                  |              |
| Transactions with non-controlling shareholders (Note 3) | -                                 | -             | -  | (8,234)        | -                         | -                     | 71                      | 8,163         | -                         |              |
| <b>Other changes in equity</b>                          | -                                 | -             | -  | 17,237         | (17,237)                  | -                     | -                       | -             | -                         |              |
| Transfers between equity items                          | -                                 | -             | -  | 17,237         | (17,237)                  | -                     | -                       | -             | -                         |              |
| <b>Balances at 30 June 2019</b>                         | <b>10,319</b>                     | <b>11,863</b> | <b>39,119</b>                                      | <b>801,810</b> | <b>(12,512)</b>           | <b>(4,701)</b>        | <b>(133,804)</b>        | <b>11,942</b> | <b>724,036</b>            |              |

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 19 are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2019.



Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 19).  
In the event of a discrepancy, the Spanish-language version prevails.

## Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries composing the CAF Group

### Condensed Consolidated Statements of Cash Flows for the six-month periods ended 30 June 2019 and 2018 (Notes 1 & 2) (Thousands of Euros)

|  | Note  | 30/06/19        | 30/06/18 (*)    |
|--|-------|-----------------|-----------------|
| <b>Cash flows from operating activities:</b>                                     |       |                 |                 |
| Profit before tax from continuing and discontinued operations                    |       | 3,834           | 36,265          |
| Adjustments for-   |       |                 |                 |
| Depreciation and amortisation charge   | 5 & 6 | 38,685          | 20,421          |
| Other adjustments to profit or loss (net)  |       | 51,179          | 47,124          |
| Changes in working capital-  |       | (101,116)       | (21,845)        |
| Other cash flows from operating activities-                                      |       |                 |                 |
| Income tax recovered/(paid)  |       | (11,001)        | (23,775)        |
| Other amounts received/(paid) relating to operating activities                   |       | (1,262)         | (1,279)         |
| <b>Cash flows from operating activities (I)</b>                                  |       | <b>(19,681)</b> | <b>56,911</b>   |
| <b>Cash flows from investing activities:</b>                                     |       |                 |                 |
| Payments due to investment-  |       |                 |                 |
| Group companies, associates and business units                                   |       | (635)           | (123)           |
| Property, plant and equipment, intangible assets and investment property         | 5 & 6 | (37,471)        | (44,507)        |
| Business unit (changes in the scope of consolidation)                            |       |                 |                 |
| Other financial assets   | 7     | (5,829)         | (9,024)         |
| Proceeds from disposal-  |       |                 |                 |
| Group companies, associates and business units                                   | 7     | 47              | 7,835           |
| Property, plant and equipment, intangible assets and investment property         | 5 & 6 | 163             | 38              |
| Other financial assets   | 7     | 14,755          | 11,643          |
| Other cash flows from investing activities                                       |       |                 |                 |
| Interest received  |       | 3,600           | 3,117           |
| <b>Cash flows from investing activities (II)</b>                                 |       | <b>(25,370)</b> | <b>(31,021)</b> |
| <b>Cash flows from financing activities:</b>                                     |       |                 |                 |
| Proceeds/(payments) relating to equity instruments-                              |       |                 |                 |
| Issue  |       | -               | 450             |
| Proceeds/(payments) relating to financial liability instruments-                 | 11    |                 |                 |
| Issue  |       | 299,593         | 82,575          |
| Repayment  |       | (243,963)       | (27,459)        |
| Dividends and returns on other equity instruments paid-                          |       |                 |                 |
| Other cash flows from financing activities-                                      | 11    |                 |                 |
| Interest paid  |       | (29,090)        | (30,056)        |
| <b>Cash flows from financing activities (III)</b>                                |       | <b>26,540</b>   | <b>25,510</b>   |
| <b>Effect of foreign exchange rate changes on cash and cash equivalents (IV)</b> |       | <b>421</b>      | <b>(32)</b>     |
| <b>Net increase in cash and cash equivalents (I+II+III+IV)</b>                   |       | <b>(18,090)</b> | <b>51,368</b>   |
| Cash and cash equivalents at beginning of period                                 |       | 602,813         | 371,625         |
| <b>Cash and cash equivalents at end of period</b>                                |       | <b>584,723</b>  | <b>422,993</b>  |

(\*) Presented for comparison purposes only.

The accompanying Notes 1 to 19 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2019.



*Translation of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (Notes 2 and 19). In the event of a discrepancy, the Spanish-language version prevails.*

## **Construcciones y Auxiliar de Ferrocarriles, S.A. and Subsidiaries (the CAF Group)**

Notes to the Condensed Consolidated Financial Statements  
for the six-month period ended 30 June 2019

### **1. Description and activities of the Parent**

Construcciones y Auxiliar de Ferrocarriles, S.A. ("CAF" or "the Parent") was incorporated for an indefinite period of time in San Sebastián (Guipúzcoa) and has its registered office in Beasain (Guipúzcoa).

The Parent's object is described in Article 2 of its bylaws.

The Parent currently engages mainly in the manufacture of rolling stock materials.

The Parent, as part of its business activities, holds majority ownership interests in other companies (Note 3).

The CAF Group's consolidated financial statements for 2018 were approved by the shareholders at the Annual General Meeting of CAF on 15 June 2019.

### **2. Basis of presentation of the interim condensed consolidated financial statements**

#### ***a) Basis of presentation***

In conformity with Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of a European Union Member State and whose securities are traded on a regulated market of any Member State are required to present their consolidated financial statements for the years commenced on or after 1 January 2005 in accordance with International Financial Reporting Standards ("IFRSs") previously adopted by the European Union.

The CAF Group's consolidated financial statements for 2018 were prepared by the Parent's directors in accordance with International Financial Reporting Standards as adopted by the European Union, and the bases of consolidation, accounting policies and measurement bases described in Note 3 to those consolidated financial statements were applied in order to present fairly the Group's consolidated equity and consolidated financial position as at 31 December 2018 and its consolidated results, the changes in consolidated equity and its consolidated cash flows for the year then ended.

These interim condensed consolidated financial statements are presented in accordance with IAS 34, Interim Financial Reporting, and were authorised for issue by the Parent's directors on 30 July 2019 pursuant to Article 12 of Royal Decree 1362/2007. This interim condensed consolidated financial information was prepared on the basis of the accounting records of Construcciones y Auxiliar de Ferrocarriles, S.A. and the other companies composing the Group, and includes all the adjustments and reclassifications required to unify the accounting and presentation policies applied by all the Group companies (in all cases, local legislation) with those applied by Construcciones y Auxiliar de Ferrocarriles, S.A. for the purposes of the consolidated financial statements.

As established in IAS 34, the interim financial information is intended only to provide an update on the content of the latest complete annual consolidated financial statements prepared by the Group, focusing on new activities, events and circumstances occurring during the six-month period, and does not duplicate information previously reported in the consolidated financial statements for 2018. Consequently, for a proper comprehension of the information included in these interim condensed consolidated financial statements, they should be read together with the Group's consolidated financial statements for 2018.

The accounting policies and methods used in preparing these interim condensed consolidated financial statements are the same as those used in the consolidated financial statements for 2018, except for the standards and interpretations which came into force in the first half of 2019 and are detailed below.

***b) Entry into force of new accounting standards***

Accounting standard IFRS 16, Leases came into force on 1 January 2019, superseding IAS 17. The main change is the introduction of a single lessee accounting model which requires a lessee to recognise all leases (with certain limited exceptions) as if they were financed purchases, i.e. similar to finance lease accounting up until that date. However, in the case of lessor accounting, a dual model continues to be used, similar to that currently established in IAS 17.

The transition to IFRS 16 was carried out using the cumulative catch-up approach and, therefore, the Group did not restate comparative information for 2018 or prior years.

The impact, by line item, on the consolidated statement of financial position as at 1 January 2019 was as follows (in thousands of euros):

|   | Balance at<br>01/01/19 | Transition to<br>IFRS 16 | Adjusted Balance<br>at 01/01/19 |
|---|------------------------|--------------------------|---------------------------------|
| <b>Non-current assets</b>                         | <b>1,390,647</b>       | <b>52,519</b>            | <b>1,443,166</b>                |
| Intangible assets                                 | 308,362                | -                        | 308,362                         |
| Property, plant and equipment                     | 365,084                | 52,519                   | 417,603                         |
| Investments accounted for using the equity method | 18,188                 | -                        | 18,188                          |
| Non-current financial assets                      | 537,061                | -                        | 537,061                         |
| Non-current hedging derivatives                   | 10,720                 | -                        | 10,720                          |
| Deferred tax assets                               | 148,548                | -                        | 148,548                         |
| Other non-current assets                          | 2,684                  | -                        | 2,684                           |
| <b>Current assets</b>                             | <b>2,615,314</b>       | -                        | <b>2,615,314</b>                |
| Inventories                                       | 375,426                | -                        | 375,426                         |
| Trade and other receivables                       | 1,530,590              | -                        | 1,530,590                       |
| Current financial assets                          | 94,293                 | -                        | 94,293                          |
| Current hedging derivatives                       | 5,849                  | -                        | 5,849                           |
| Other current assets                              | 6,343                  | -                        | 6,343                           |
| Cash and cash equivalents                         | 602,813                | -                        | 602,813                         |
| <b>TOTAL ASSETS</b>                               | <b>4,005,961</b>       | <b>52,519</b>            | <b>4,058,480</b>                |
| <b>Equity</b>                                     | <b>757,267</b>         | -                        | <b>757,267</b>                  |
| <b>Non-current liabilities</b>                    | <b>1,091,698</b>       | <b>41,007</b>            | <b>1,132,705</b>                |
| Long-term provisions                              | 6,877                  | -                        | 6,877                           |
| Non-current financial liabilities                 | 814,238                | 41,007                   | 855,245                         |
| Deferred tax liabilities                          | 177,191                | -                        | 177,191                         |
| Non-current hedging derivatives                   | 11,206                 | -                        | 11,206                          |
| Other non-current liabilities                     | 82,186                 | -                        | 82,186                          |
| <b>Current liabilities</b>                        | <b>2,156,996</b>       | <b>11,512</b>            | <b>2,168,508</b>                |
| Short-term provisions                             | 224,970                | -                        | 224,970                         |
| Current financial liabilities                     | 278,772                | 11,512                   | 290,284                         |
| Trade and other payables                          | 1,583,273              | -                        | 1,583,273                       |
| Current hedging derivatives                       | 64,167                 | -                        | 64,167                          |
| Other current liabilities                         | 5,814                  | -                        | 5,814                           |
| <b>TOTAL EQUITY AND LIABILITIES</b>               | <b>4,005,961</b>       | <b>52,519</b>            | <b>4,058,480</b>                |

In summary, the aforementioned impacts of transition to IFRS 16 amount to the recognition of a right-of-use asset and a financial liability in the balance sheet. The right-of-use asset is depreciated on a straight-line basis over a period that approximates the lease term. Right-of-use assets are subject to impairment.

The impact of this new standard at 1 January 2019 took the following aspects into consideration:

- The Group identified all leases that, at year closing, were not classified as having a "low value" underlying asset (taking the value provided in the IFRSs -USD 5,000- as a reference), focusing its analysis on leases that convey the right to control the use of an asset. Following the cost/benefit model permitted under IFRSs, or the simplified approach as a practical expedient, the Group accounts for low-value or short-term leases (with a term of 12 months or less from the commencement date) using the accounting policy applied to date, recognising such leases as an expense on a straight-line basis over the lease term. The amount recognised as an expense for these leases in the period ended 30 June 2019 amounted to EUR 3,900 thousand.
- The Group analysed whether the identified contracts meet the requirements for recognition as leases laid down in the standard, i.e.:

- a) There is an identified asset (either in the form of a separate asset or a “physically distinct portion” thereof) which, in accordance with the clauses of the lease, conveys the right to control the use of the identified asset.
  - b) The use of this asset provides the customer with the right to obtain substantially all of the economic benefits from use of the asset during the lease term.
- The leases affected by this new standard refer mainly to commercial buildings and to various machines for warehouse use.
  - The liability was initially recognised taking into account both fixed payments (less any incentives from the lessor) and variable payments that depend on an index (mainly, the CPI). As provided for in the standard, the total lease liability is discounted taking into account the Group's incremental borrowing rate, since the interest rate implicit in the lease cannot be readily determined. The discount rate is determined using a specific rate for each lease depending on the country in which the lessee is located and the lease term.

At 30 June 2019, EUR 6,211 thousand was recognised under “Depreciation and Amortisation Charge” in relation to the depreciation of right-of-use assets. “Finance Costs”, which amounts to EUR 1,273 thousand, includes the effect of discounting the financial liability.

The impact of adopting this standard on the statement of cash flows is neutral. However, repayments of the lease liabilities are classified within financing activities under IFRS 16, whereas previously they were classified as cash flows from operating activities.

### **c) Use of estimates**

The consolidated results and the determination of consolidated equity are sensitive to the accounting principles and policies, measurement bases and estimates used by the Parent's directors in preparing the interim condensed consolidated financial statements. The main accounting principles and policies and measurement bases used are indicated in Note 3 to the consolidated financial statements for 2018.

In the interim condensed consolidated financial statements estimates were occasionally made by the senior executives of the Parent and of the consolidated companies in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates, which were made on the basis of the best information available, relate basically to the following:

1. The income tax expense which, in accordance with IAS 34, is recognised in interim periods based on the best estimate of the weighted average tax rate envisaged by the Group for the full financial year;
2. The assessment of possible impairment losses on certain assets;
3. The assumptions used in the actuarial calculation of pension and other obligations to employees;
4. The useful life of the property, plant and equipment and intangible assets;
5. The fair value of certain financial assets and intangible assets (Notes 5 and 7);
6. The calculation of provisions and penalties that reduce the selling price (Note 2-d);
7. The assessment of the probability of having future taxable profits against which unused recognised tax assets can be utilised; and

8. Changes in estimated costs in the budgets for construction projects performed and percentage of completion.

Although the aforementioned estimates were made on the basis of the best information available at the reporting date on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) at the end of 2019 or in coming years. Changes in accounting estimates would be applied, if required, prospectively in accordance with IAS 8, recognising the effects of the change in estimates in the corresponding consolidated statement of profit or loss.

In the six-month period ended 30 June 2019 there were no significant changes in estimates with respect to those made at 2018 year-end.

#### ***d) Contingent assets and liabilities***

Note 26 to the Group's consolidated financial statements for the year ended 31 December 2018 discloses information on the contingent assets and liabilities at that date, as well as in the notes 9 and 12 on the attached condensed consolidated financial statements for the six months period ended in 30 June 2019.

In March 2014, following completion of an administrative investigation process initiated in May 2013 into the participation of several rolling stock manufacturers, one of which is a subsidiary of the CAF Group in Brazil, in public tenders, the Brazilian Administrative Council for Economic Defence (CADE) initiated administrative proceedings arising from possible anti-competitive practices. The subsidiary submitted its preliminary pleas and has cooperated on an ongoing basis with the authorities and provided them with the information requested. In July 2019 the CADE tribunal issued an administrative decision ordering the subsidiary to pay a fine of BRL 167,057,982.53 (EUR 38,540 thousand) and advised the competent authorities not to grant the subsidiary certain tax benefits for a period of five years. The Group recognised this amount with a charge to "Other Operating Expenses" in the half-yearly condensed consolidated statement of profit or loss and a credit to "Long-Term Provisions" in the accompanying condensed consolidated balance sheet (Note 12). CADE's decision had not come into effect at the date of authorisation for issue of these half-yearly condensed consolidated financial statements. The subsidiary rejects CADE's assessment of the facts when imposing the aforementioned penalty and argues that, with respect to the facts under investigation, it has always acted in strict compliance with the applicable law. Once CADE's decision becomes effective, the subsidiary will lodge an appeal with the Brazilian courts. The subsidiary's legal advisers consider there to be a reasonable chance that the penalty will ultimately be reduced to an amount that is substantially lower than the one mentioned, and they do not rule out the total annulment of the fine. Also, as a result of the information obtained in these proceedings, an order was issued to block a current account amounting to EUR 203 thousand. At the present date, the decision on an extraordinary appeal to unblock the account is currently being awaited.

Also, as a result of the investigations conducted by CADE, other authorities, including the Sao Paulo State Public Prosecutor, have initiated court proceedings. At the date of formal preparation of these interim consolidated financial statements, only one of the proceedings initiated as a result of CADE's investigation has commenced, whereas in the other proceedings the Group is waiting to be summoned to declare or to submit pleadings as some of the parties involved have yet to be summoned. Similarly, and as a result of CADE's investigations, an administrative proceeding was initiated by the Brazilian Court of Auditors in relation to which the subsidiary submitted its preliminary pleas in the first half of 2016. Subsequent to the ruling of the Court of Auditors which considered the existence of irregularities of any kind to be unproven, a request was made for these proceedings to be closed and dismissed. This request is awaiting a decision. Lastly, also as a result of the investigations conducted by CADE, the Brazilian Administrative Council of Economic Defence, processed an administrative procedure in relation to which the subsidiary filed initial claims during the second half of 2018.



The CAF Group continues to defend its interests in these proceedings. However, at the reporting date it was not possible to determine the result or the impact that these proceedings might have on the Group's financial statements should the outcome be unfavourable and, therefore, no liabilities were recognised in this connection in the half-yearly condensed consolidated financial statements.

At 30 June 2019, the Group was involved in litigation with a customer as a result of a project in which mutually submitted claims were made due to delays in achieving the contractual milestones signed by the consortium to which CAF belongs. The litigation is in progress and, therefore, it is difficult to assess its possible impact; however, the Parent's directors consider that the likelihood of this situation giving rise to losses for the Group is low, since there are causes that have given rise to delays that can in no case be attributed to the consortium, the amounts claimed are greater than the damage caused to the customer, and there are claims for cost overruns incurred by the consortium attributable to the customer.

On 27 August 2018, the Spanish National Market and Competition Commission ("CNMC") instituted a penalty proceeding against various companies, including CAF Signalling, S.A. and its parent Construcciones y Auxiliar de Ferrocarriles, S.A., which is jointly and severally liable, in relation to alleged anti-competitive practices.

CAF is exercising the legal actions required to defend its interests, although it is still unaware of the conduct and practices attributed to CAF Signalling, S.A. and to Construcciones y Auxiliar de Ferrocarriles, S.A. The investigation remains open and it is not therefore expected to rule on the case in 2019.

#### **e) Comparative information**

The information relating to 2018 contained in these interim condensed consolidated financial statements is presented solely for comparison purposes with the information relating to the six-month period ended 30 June 2019.

However, for an appropriate comparison, it should be taken into account that the Group availed itself of the option not to restate information in the transition to the new IFRS 16. The main items affected are detailed in Note 2-b.

In addition, with a view to performing an appropriate comparison between the half-yearly condensed consolidated financial statements for the two reporting periods, the inclusion of Solaris Bus & Coach, S.A. in the scope of consolidation of the CAF Group in September 2018 must be taken into consideration (Note 17).

#### **f) Seasonality of the Group's transactions**

In view of the business activities in which the Group companies engage, as well as the stage of completion method of accounting, the Group's transactions are not cyclical or seasonal in nature. Therefore, no specific disclosures in this connection are included in these notes to the condensed consolidated financial statements for the six-month period ended 30 June 2019.

#### **g) Materiality**

In determining the disclosures to be made in these notes to the condensed consolidated financial statements on the various line items in the condensed consolidated financial statements or on other matters, in accordance with IAS 34 the Group took into consideration materiality with respect to the interim condensed consolidated financial statements.

#### **h) Events after the reporting period**

At 30 June 2019, the Group had a firm backlog of EUR 8,535 million.



The backlog does not include the contract recently awarded to Solaris by Milan transport operator ATM, which encompasses the supply of up to 250 electric buses for the city of Milan for approximately EUR 192 million, the first batch of 40 of which is scheduled for delivery starting in June 2020.

Also, in July 2019 the Polish transport operator MZA (Miejskie Zakłady Autobusowe w Warszawie) selected the CAF Group to supply 130 electric buses for the city of Warsaw in a contract worth approximately EUR 100 million.

On 2 July 2019, CAF acquired all the shares of the Swedish railway maintenance company EuroMaint.

EuroMaint is currently one of the benchmark companies in the Swedish railway market, and holds a major share of the Swedish market in the maintenance business of fleets of passenger trains, locomotives and work machines, carrying on its operations at 18 premises and workshops across the length and breadth of the country. The Swedish company currently has a workforce of around 1,000 employees and generated revenue of approximately EUR 150 million in 2018. The enterprise value of the acquired company is estimated at around EUR 80 million.

### **3. Changes in the composition of the Group**

Note 2-f to the consolidated financial statements for the year ended 31 December 2018 provides relevant information on the Group companies that had been consolidated at that date and on those accounted for using the equity method.

CAF Norway AS and CAF Engineered Modernizations, S.L.U. (both wholly-owned subsidiaries), Momentum Trains Holding PTY Ltd. (a 25.5%-owned investee of the subsidiary CAF Investment Projects, S.A.U.) and Transjerusalem J-Net Ltd. (a 50%-owned subsidiary of the Parent) were incorporated in the first six months of 2019.

The ownership interests held by the non-controlling shareholder of Vectia Mobility, S.L. and Vectia Mobility Research & Development, A.I.E. (a 30% ownership interest in each) were acquired in June 2019. This non-controlling shareholder became a shareholder of the Solaris Bus & Coach, S.A. Group with an investment of 2.8%. This change in the shareholder structure did not entail any cash disbursement.

In 2018 the Parent acquired control of Solaris Bus & Coach, S.A. and subsidiaries ("Solaris"), which were included in the scope of consolidation of the CAF Group. Note 2-f to the consolidated financial statements for the year ended 31 December 2018 details the fair value of the assets acquired and liabilities assumed in the aforementioned transaction. In the first six months of 2019 there were no significant changes in the allocation of fair values to the assets acquired and liabilities assumed.

#### 4. Dividends payable by the Parent

The dividends payable by the Parent in July 2019 and 2018, respectively, which relate in both cases to approved dividends out of the previous year's profit, are shown below. They all correspond to ordinary shares. The Group recognised these amounts (net of the corresponding withholding tax) with a credit to "Current Financial Liabilities - Other Financial Liabilities" in the condensed consolidated balance sheets as at 30 June 2019 and 2018:

|                                   | 30/06/19       |                 |                             | 30/06/18       |                 |                             |
|-----------------------------------|----------------|-----------------|-----------------------------|----------------|-----------------|-----------------------------|
|                                   | % of Par Value | Euros per Share | Amount (Thousands of Euros) | % of Par Value | Euros per Share | Amount (Thousands of Euros) |
| Total dividends payable (Note 11) | 254%           | 0.765           | 26,225                      | 219%           | 0.66            | 22,625                      |

#### 5. Intangible assets

The changes in the six-month period ended 30 June 2019 in the intangible asset accounts and in the related accumulated amortisation were as follows:

|   | Thousands of Euros      |   |                                  |                             |                |                  |
|---|-------------------------|---|----------------------------------|-----------------------------|----------------|------------------|
|   | Development Expenditure | Commercial Relationships and Customer Portfolio | Patents, Licenses and Trademarks | Computer Software and Other | Goodwill       | Total            |
| <b>Balance at 31/12/18</b>                  |                         |   |                                  |                             |                |                  |
| Cost  | 170,549                 | 26,356  | 113,042                          | 36,861                      | 101,827        | 448,635          |
| Accumulated amortisation                    | (89,244)                | (2,642)   | (1,926)                          | (20,516)                    | -              | (114,328)        |
| Impairment losses                           | (25,932)                | -   | -                                | (13)                        | -              | (25,945)         |
| <b>Net balance at 31/12/18</b>              | <b>55,373</b>           | <b>23,714</b>                                   | <b>111,116</b>                   | <b>16,332</b>               | <b>101,827</b> | <b>308,362</b>   |
| <b>Cost-</b>                                |                         |   |                                  |                             |                |                  |
| Translation differences                     | 203                     | 86  | 1,344                            | 114                         | 1,105          | 2,852            |
| Additions                                   | 11,622                  | -   | -                                | 5,555                       | -              | 17,177           |
| Disposals                                   | -                       | -   | -                                | (9)                         | -              | (9)              |
| Transfer                                    | 1,645                   | -   | 22                               | 1,115                       | (391)          | 2,391            |
| <b>Cost at 30/06/19</b>                     | <b>184,019</b>          | <b>26,442</b>                                   | <b>114,408</b>                   | <b>43,636</b>               | <b>102,541</b> | <b>471,046</b>   |
| <b>Accumulated amortisation-</b>            |                         |   |                                  |                             |                |                  |
| Translation differences                     | (23)                    | 6   | (54)                             | (30)                        | -              | (101)            |
| Additions or charge for the year            | (7,567)                 | (1,059)   | (2,798)                          | (2,191)                     | -              | (13,615)         |
| Disposals                                   | -                       | -   | -                                | -                           | -              | -                |
| Transfers                                   | -                       | -   | (18)                             | (1,120)                     | -              | (1,138)          |
| <b>Accumulated amortisation at 30/06/19</b> | <b>(96,834)</b>         | <b>(3,695)</b>                                  | <b>(4,796)</b>                   | <b>(23,857)</b>             | <b>-</b>       | <b>(129,182)</b> |
| <b>Impairment losses-</b>                   |                         |   |                                  |                             |                |                  |
| Charge for the year                         | 208                     | -   | -                                | -                           | -              | 208              |
| Translation differences                     | 2                       | -   | -                                | -                           | -              | 2                |
| <b>Impairment losses at 30/06/19</b>        | <b>(25,722)</b>         | <b>-</b>  | <b>-</b>                         | <b>(13)</b>                 | <b>-</b>       | <b>(25,735)</b>  |
| <b>Net balance at 30/06/19</b>              | <b>61,463</b>           | <b>22,747</b>                                   | <b>109,612</b>                   | <b>19,766</b>               | <b>102,541</b> | <b>316,129</b>   |

The additions in the first half of 2019 recognised as "Development Expenditure" relate to the costs incurred in projects to develop new products and projects, as the Group considered that there were no reasonable doubts regarding the economic and commercial returns thereon. Additionally, the Group initiated the process of implementing the new ERP. At 30 June 2019,

the Group had investment commitments amounting to EUR 17,787 thousand, mainly in relation to the new IT system.

In the first six months of 2019 and 2018 there was no impairment of, or substantial changes in, the return estimates and assumptions regarding the development projects on which impairment had been recognised in prior years.

## **6. Property, plant and equipment**

### **a) Changes in the period**

The main changes in the first half of 2019 are the followings:

|                                 | Thousands of Euros            |                                |  |                |                         |                         |                            |
|---------------------------------|-------------------------------|--------------------------------|--|----------------|-------------------------|-------------------------|----------------------------|
|                                 | Beginning balance at 31/12/18 | Initial application of IFRS 16 | Additions/Depreciation/Charge for the year | Transfers      | Disposals or reductions | Translation differences | Ending balance at 30/06/19 |
| <b>Cost</b>                     | <b>777,219</b>                | <b>52,519</b>                  | <b>18,531</b>                              | <b>(3,870)</b> | <b>(1,236)</b>          | <b>2,450</b>            | <b>845,613</b>             |
| Property, plant and equipment   | 777,219                       | (1,230)                        | 13,829                                     | (4,423)        | (869)                   | 2,557                   | 787,083                    |
| Rights of use                   | -                             | 53,749                         | 4,702                                      | 553            | (367)                   | (107)                   | 58,530                     |
| <b>Accumulated depreciation</b> | <b>(401,352)</b>              | -                              | <b>(25,070)</b>                            | <b>3,105</b>   | <b>686</b>              | <b>(628)</b>            | <b>(423,259)</b>           |
| Property, plant and equipment   | (401,352)                     | -                              | (18,859)                                   | 1,475          | 649                     | (642)                   | (418,729)                  |
| Rights of use                   | -                             | -                              | (6,211)                                    | 1,630          | 37                      | 14                      | (4,530)                    |
| <b>Impairment losses</b>        | <b>(10,783)</b>               | -                              | <b>(272)</b>                               | <b>765</b>     | -                       | <b>(13)</b>             | <b>(10,303)</b>            |
| Property, plant and equipment   | (10,783)                      | -                              | (272)                                      | 765            | -                       | (13)                    | (10,303)                   |
| Rights of use                   | -                             | -                              | -  | -              | -                       | -                       | -                          |
| <b>Net</b>                      | <b>365,084</b>                | <b>52,519</b>                  | <b>(6,811)</b>                             | -              | <b>(550)</b>            | <b>1,809</b>            | <b>412,051</b>             |
| Property, plant and equipment   | 365,084                       | (1,230)                        | (5,302)                                    | (2,183)        | (220)                   | 1,902                   | 358,051                    |
| Rights of use                   | -                             | 53,749                         | (1,509)                                    | 2,183          | (330)                   | (93)                    | 54,000                     |

The Group recognised right-of-use assets under "Property, Plant and Equipment" after accounting standard IFRS 16 came into force, as described in Note 2-b.

The main additions in the first half of 2019 relate basically to construction of the new test track in Corella (Spain) and to rolling stock and bus production-related investments in the Beasain and Polish plants, respectively.

The Group deducts the amount of any grants received for the acquisition of an asset from the carrying amount of the asset acquired. At 30 June 2019, the net amount of the grants received not yet allocated to profit or loss totalled EUR 1,013 thousand (31 December 2018: EUR 1,055 thousand). EUR 42 were allocated to profit or loss in the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: EUR 98 thousand).

### **b) Property, plant and equipment purchase commitments**

At 30 June 2019, the Group had firm capital expenditure commitments amounting to approximately EUR 11,804 thousand (31 December 2018: EUR 10,376 thousand), relating mainly to the construction and fitting out of a new finishing warehouse at the French plant.

## 7. Financial assets and investments accounted for using the equity method

### a) Investments accounted for using the equity method

The detail of "Investments Accounted for Using the Equity Method" is as follows:

|  | Thousands of Euros |               |
|--|--------------------|---------------|
|  | 30/06/19           | 31/12/18      |
| Nuevas Estrategias de Mantenimiento, S.L.    | 3,904              | 4,513         |
| Consortio Traza, S.A.                        | 5,183              | 5,339         |
| Arabia One for Clean Energy Investments PSC. | 1,355              | 1,475         |
| Orbital Sistemas Aeroespaciales, S.L.        | 5,869              | 5,740         |
| Other investments                            | 1,492              | 1,121         |
| <b>TOTAL</b>                                 | <b>17,803</b>      | <b>18,188</b> |

### b) Non-current financial assets

The detail of "Non-Current Financial Assets" in the accompanying half-yearly condensed consolidated financial statements is as follows:

|   | Thousands of Euros |                 |                |                 |
|---|--------------------|-----------------|----------------|-----------------|
|   | 30/06/19           |                 | 31/12/18       |                 |
|   | % of Ownership     | Balance         | % of Ownership | Balance         |
| <b>Equity instruments-</b>                      |                    |                 |                |                 |
| Alquiler de Trenes, A.I.E.                      | 5%                 | 3,669           | 5%             | 3,587           |
| Ferromovil 3000, S.L.                           | 10%                | 9,879           | 10%            | 9,660           |
| Alquiler de Metros, A.I.E.                      | 5%                 | 125             | 5%             | 107             |
| Plan Azul 07, S.L.                              | 5,2%               | 3,207           | 5,2%           | 3,158           |
| Arrendadora de Equipamientos Ferroviarios, S.A. | 15%                | 4,646           | 15%            | 4,542           |
| Iniciativa FIK, A.I.E.                          | 14.18%             | 776             | 14.18%         | 838             |
| Albali Señalización, S.A.                       | 3%                 | 631             | 3%             | 641             |
| Other   |                    | 252             |                | 301             |
| <b>Total equity instruments -</b>               |                    | <b>23,185</b>   |                | <b>22,834</b>   |
| <b>Other financial assets -</b>                 |                    |                 |                |                 |
| <b>Amortised cost -</b>                         |                    |                 |                |                 |
| Guarantees and other financial assets           |                    | 15,716          |                | 16,250          |
| Loans to employees                              |                    | 4,209           |                | 4,238           |
| Non-current tax receivables                     |                    | 42,639          |                | 42,231          |
| Non-current trade receivables and loans         |                    | 431,611         |                | 439,761         |
| Loans to associates                             |                    | 27,806          |                | 26,823          |
|   |                    | <b>521,981</b>  |                | <b>529,303</b>  |
| <b>Provisions-</b>                              |                    |                 |                |                 |
| Provisions for tax payables                     |                    | (12,458)        |                | (12,176)        |
| Impairment losses                               |                    | (2,983)         |                | (2,900)         |
|   |                    | <b>(15,441)</b> |                | <b>(15,076)</b> |
| <b>Total other financial assets</b>             |                    | <b>506,540</b>  |                | <b>514,227</b>  |
| <b>Total</b>                                    |                    | <b>529,725</b>  |                | <b>537,061</b>  |

#### Guarantess and other financial assets

At 30 June 2019, the guarantee relating to the increase in borrowings taken by the subsidiary Ctrens Companhia Manutenção (Note 11) amounted to EUR 12,790 thousand (31 December 2018: EUR 13,194 thousand).

*Non-current tax receivables*

At 30 June 2019, the Group recognised EUR 42,639 thousand under "Non-Current Financial Assets - Loans and Receivables" in connection with VAT equivalent amounts refundable by foreign tax authorities (31 December 2018: EUR 42,231 thousand). This amount increased by EUR 903 thousand in 2019 as a result of translation differences.

At 30 June 2019, the Group had recognised impairment losses of EUR 12,458 thousand (31 December 2018: EUR 12,176 thousand) to adjust the face value of these receivables to their recoverable amount.

*Non-current trade receivables and loans*

In 2010 the Group entered into concession arrangements in Brazil and Mexico, the terms and conditions of which are described in Note 9-c to the consolidated financial statements for 2018. These concessions are accounted for in accordance with the financial asset model under IFRIC 12, since the related requirements are met and, pursuant to this standard, the various services provided (construction, operation/maintenance and financing) were accounted for separately.

Consequently, the Group recognised EUR 425,114 thousand under "Non-Current Financial Assets - Financial Assets at Amortised Cost - Non-Current Trade Receivables - Concession Assets" (31 December 2018: EUR 433,642 thousand) and EUR 114,506 thousand under "Current Assets - Other Receivables" (31 December 2018: EUR 110,211 thousand) in relation to construction activities and services performed to date, net of billings made.

Under both contracts the future cash flows from payments are determined and guaranteed in full from the date the contracts are signed. The only potentially variable amount in the payments relates solely to any possible penalties relating to the technical performance of the rolling stock material made available to the customer. There is no demand risk for the CAF Group in these contracts, since the financial flows to be received are unrelated to passenger numbers.

The changes in the first six months of 2019 and 2018 in the balance of the impairment losses on the Group's assets, including non-current tax receivables and expected credit losses under IFRS 9, which form part of the balance of "Non-Current Financial Assets", were as follows:

|   | Thousands of Euros |                 |
|---|--------------------|-----------------|
|   | 30/06/19           | 30/06/18        |
| <b>Balance at the beginning of the period</b>   | <b>(15,076)</b>    | <b>(16,720)</b> |
| Translation differences   | (308)              | 1,837           |
| Impairment losses recognised with a charge to "Impairment and Gains or Losses on Disposals of Non-Current Assets" | (23)               | 7               |
| Impairment losses recognised with a charge to "Other Operating Expenses"  | (34)               | -               |
| <b>Balance at end of period</b>   | <b>(15,441)</b>    | <b>(14,876)</b> |

### c) Current financial assets

The detail of "Current Financial Assets" in the accompanying half-yearly condensed consolidated financial statements is as follows:

|                                      | Thousands of Euros |               |
|--------------------------------------|--------------------|---------------|
|                                      | 30/06/19           | 31/12/18      |
| <b>Other financial assets</b>        |                    |               |
| At amortised cost                    | 36,539             | 35,012        |
| At fair value through profit or loss | 60,424             | 59,281        |
| <b>Total</b>                         | <b>96,963</b>      | <b>94,293</b> |

### 8. Inventories

The detail of "Inventories" at 30 June 2019 and 31 December 2018 is as follows:

|   | Thousands of Euros |                |
|---|--------------------|----------------|
|   | 30/06/19           | 31/12/18       |
| Raw materials and other supplies, work in progress and finished and semi-finished goods | 380,348            | 339,093        |
| Advances to suppliers   | 51,860             | 36,333         |
| <b>Total</b>  | <b>432,208</b>     | <b>375,426</b> |

### 9. Trade and other receivables

The detail, by customers billed and contract assets, of "Trade and Other Receivables" is as follows:

|                  | Thousands of Euros |                  |
|------------------|--------------------|------------------|
|                  | 30/06/19           | 31/12/18         |
| Contract assets  | 1,002,586          | 856,258          |
| Customers billed | 469,870            | 471,949          |
| Write-downs      | (17,195)           | (16,372)         |
| <b>Total</b>     | <b>1,455,261</b>   | <b>1,311,835</b> |

"Customer billed" includes retentions at 30 June 2019 amounting to EUR 8,170 thousand (31 December 2018: EUR 7,734 thousand). At 30 June 2019, the provisions for third-party liability reducing "Customers Billed" amounted to EUR 84,819 thousand (31 December 2018: EUR 86,193 thousand). Similarly, the provisions for third-party liability reducing "Contract Assets" amounted to EUR 48,230 thousand at 30 June 2019 (31 December 2018: EUR 30,342 thousand).

At 30 June 2019 and 31 December 2018, the balances billed included EUR 58,601 thousand in relation to the agreement signed in prior years with Metro de Caracas, the balance of which is past due and relates to work performed and billed to the customer and the collection of which is considered to be covered by the insurance policy in force, according to Note 12 of the Group's consolidated financial statements for 2018.

The Group derecognises a financial asset when the rights to the cash flows from the financial asset expire or have been transferred and substantially all the risks and rewards of ownership of the financial asset have also been transferred, such as in the case of firm asset sales and non-recourse factoring of trade receivables. At 30 June 2019, the unmatured receivables settled by the Group through the aforementioned non-recourse factoring transactions amounted to EUR 64,654 thousand (31 December 2018: EUR 28,108 thousand).

The CAF Group is part of a consortium in Brazil, the purpose of which is the performance of a construction contract for a new tramway and the supply of rolling stock for the tramway. CAF's scope in the consortium basically entails the supply of the rolling stock and the signalling. The consortium and the customer are currently involved in various proceedings in which, among other issues, the potential breach of contract by both parties is under analysis, mainly in relation to the civil engineering work. In this connection, at the present date CAF's legal advisers consider that the Consortium has solid arguments to justify its defence and to conclude that the non-completion of the work is the result of the customer not complying with its commitments. Whatever the case may be, should a court order be issued against the Consortium in relation thereto, since the breaches are mainly attributable to other members of the Consortium, CAF could claim the potential losses from such members. At 30 June 2019, the amount, past-due by more than 180 days, recognised under "Trade Receivables for Sales and Services" in relation to this contract, net of advances received, amounted to EUR 13.6 million (31 December 2018: EUR 13.3 million), and no amount had been recognised for additional claims on the original contract.

#### *Contract assets and liabilities*

The detail, by contract, of contract assets and liabilities is as follows:

|                                  | Thousands of Euros |               |
|----------------------------------|--------------------|---------------|
|                                  | 30/06/19           | 31/12/18      |
| Current contract assets          | 1,002,586          | 856,258       |
| Current contract liabilities     | (805,548)          | (763,104)     |
| Non-current contract liabilities | (48,994)           | (41,228)      |
| <b>Net</b>                       | <b>148,044</b>     | <b>51,926</b> |

## **10. Equity**

### ***a) Issued capital***

At 30 June 2019, the Parent's share capital amounted to EUR 10,318,505.75, consisting of 34,280,750 fully subscribed and paid book-entry shares. CAF shares are traded on the Spanish stock market interconnection system at the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. The Parent has maintained the same share capital over the last two years.

On 2 June 2018, at the Annual General Meeting, the Board of Directors empowered to increase the share capital on one or more occasions, through the issuance of new shares against monetary contributions, over a period of five years and up to half of the amount of the share capital. At the date of preparation of these half-yearly condensed consolidated financial statements, no capital increase had been performed since that resolution.

The Annual General Meeting held on 13 June 2015 resolved to empower the Board of Directors to acquire treasury shares for a period of five years from that date. At the date of preparation of these half-yearly condensed consolidated financial statements, no treasury shares had been acquired since that resolution.



The Annual General Meeting held on 10 June 2017 resolved to empower the Parent's Board of Directors, with express powers of delegation, for a period of five (5) years from that date, to issue debt instruments and fixed-income or other securities (including warrants) convertible into shares of the Parent or other Group companies, including the power to disapply shareholders' pre-emption rights for a maximum of 20% of the share capital at the authorisation date. This decision rendered null and void the resolution adopted by the Parent's Annual General Meeting held on 7 June 2014. At the date of preparation of these half-yearly condensed consolidated financial statements no convertible securities had been issued since that resolution.

## **b) Other comprehensive income**

### *Hedges*

The changes in "Cash Flow Hedges" in the first six months of 2019 and 2018 were as follows:

|   | Thousands of Euros |                |
|---|--------------------|----------------|
|   | 30/06/19           | 30/06/18       |
| <b>Balance at the beginning of the period</b> | <b>(5,024)</b>     | <b>(6,580)</b> |
| Income and expense recognised in equity       | 213                | 3,199          |
| Transfers to profit or loss                   | 160                | 214            |
| Tax effect                                    | (50)               | (902)          |
| <b>Balance at the end of the period</b>       | <b>(4,701)</b>     | <b>(4,069)</b> |

### *Translation differences*

The changes in "Translation Differences" in the first six months of 2019 and 2018 were as follows:

|   | Thousands of Euros |                  |
|---|--------------------|------------------|
|   | 30/06/19           | 30/06/18         |
| <b>Balance at the beginning of the period</b> | <b>(141,782)</b>   | <b>(117,238)</b> |
| Net change in the period                      | 7,978              | (27,919)         |
| <b>Balance at the end of the period</b>       | <b>(133,804)</b>   | <b>(145,157)</b> |

The currencies with highest fluctuations in translation differences in the first six months of 2019 were the Brazilian real and the Polish zolty.

## **c) Capital management**

The Group's capital management is aimed at achieving a financial structure that optimises the cost of capital, ensuring a sound financial position. This policy makes it possible to make the creation of value for shareholders compatible with access to financial markets at a competitive cost in order to meet both debt refinancing needs and the investment plan financing requirements not covered by funds generated by the business activities carried on.

The directors of the CAF Group consider that the fact that the leverage ratio with recourse to the Parent is minimal is a good indicator that the objectives set are being achieved. At 30 June 2019 and 31 December 2018, a substantial portion of the borrowings were directly assigned to activities such as the concessions in Brazil and Mexico (Note 7). Leverage is taken to be the ratio of net financial debt to equity:

|   | Thousands of Euros |                |
|---|--------------------|----------------|
|   | 30/06/19           | 31/12/18       |
| <b>Net financial debt:</b>  |                    |                |
| Interest-bearing refundable advances                              | 12,414             | 12,451         |
| Bank borrowings – Non-current liabilities (Note 11)               | 814,509            | 766,464        |
| Bank borrowings and debt instruments – Pasivo corriente (Note 11) | 278,817            | 255,416        |
| Financial assets – Non-current assets (Note 7)                    | (12,755)           | (13,194)       |
| Current financial assets (Note 7)                                 | (96,309)           | (94,230)       |
| Cash and cash equivalents   | (584,723)          | (602,813)      |
|   | <b>411,953</b>     | <b>324,094</b> |
| <b>Equity:</b>  |                    |                |
| Attributable to the Parent  | 712,094            | 751,712        |
| Non-controlling interests   | 11,942             | 5,555          |
|   | <b>724,036</b>     | <b>757,267</b> |

## **11. Financial liabilities**

### **a) Bank borrowings and debt instruments or other marketable securities**

The detail of “Bank Borrowings and Debt Instruments or other Marketable Securities” in the accompanying consolidated balance sheet is as follows:

|   | Nominal Currency | Thousands of Euros |                |                  |                |                |                  |
|---|------------------|--------------------|----------------|------------------|----------------|----------------|------------------|
|   |                  | 30/06/19           |                |                  | 31/12/18       |                |                  |
|   |                  | Non-Current        | Current        | Total            | Non-Current    | Current        | Total            |
| Loans and credit accounts                       |                  |                    |                |                  |                |                |                  |
| Ctrens - BNDES                                  | BRL              | 119,674            | 15,637         | 135,311          | 124,343        | 14,689         | 139,032          |
| Provetren - Banking syndicate                   | USD              | 68,378             | 21,642         | 90,020           | 76,539         | 22,298         | 98,837           |
| Parent (CAF, S.A.)                              | EUR              | 509,556            | 56,271         | 565,827          | 463,618        | 76,259         | 539,877          |
| CAF Investment Projects, S.A.U.                 | EUR              | 19,849             | -              | 19,849           | 19,832         | -              | 19,832           |
| Solaris Group                                   | PLN/EUR          | 96,297             | 82,123         | 178,420          | 81,319         | 63,847         | 145,166          |
| Other Group companies                           | EUR              | 755                | 195            | 950              | 813            | 391            | 1,204            |
|   |                  | 814,509            | 175,868        | 990,377          | 766,464        | 177,484        | 943,948          |
| Debt instruments or other marketable securities |                  |                    |                |                  |                |                |                  |
| Commercial paper issues                         | EUR              | -                  | 100,250        | 100,250          | -              | 75,000         | 75,000           |
| Accrued interest payable                        |                  | -                  | 2,699          | 2,699            | -              | 2,932          | 2,932            |
| <b>Total</b>                                    |                  | <b>814,509</b>     | <b>278,817</b> | <b>1,093,326</b> | <b>766,464</b> | <b>255,416</b> | <b>1,021,880</b> |

The change in "Bank Borrowings and Debt Instruments or other Marketable Securities" in the first six months of 2019 was as follows:

|   |                  |
|---|------------------|
| <b>Balance at 31 December 2018</b>        | <b>1,021,880</b> |
| <b>Cash flows</b>                         |                  |
| New drawdowns                             | 297,570          |
| Maturity payments                         | (232,015)        |
|   | 65,555           |
| <b>Other changes (without cash flows)</b> |                  |
| Translation differences                   | 5,266            |
| Amortised cost adjustments and other      | 625              |
|   | 5,891            |
| <b>Balance at 30 June 2019</b>            | <b>1,093,326</b> |

In the first half of 2019, the Parent negotiated new terms and conditions for four bank loans totalling EUR 90,500 thousand; as a result, the amount repayable increased by EUR 5,000 thousand at a fixed market interest rate and the maturity was extended by three to five years.

On 21 December 2018, the Parent renewed, for a period of 12 months, a Euro-Commercial Paper Programme for an aggregate maximum principal amount of EUR 200 million ("the Programme"), which was registered at the Irish Stock Exchange. EUR 100,250 thousand of this total had been issued at 30 June 2019.

The main terms and conditions of the other loans are detailed in Note 16 to the consolidated financial statements for 2018.

At 30 June 2019 the Group's companies have undrawn credit facilities amounting to EUR 228,051 thousand (31 December 2018: 246,525 thousand) with a maturity of less than one year.

#### **b) Other financial liabilities**

The detail of "Non-Current Financial Liabilities - Other Financial Liabilities" and "Current Financial Liabilities - Other Financial Liabilities" in the half-yearly condensed consolidated balance sheet as at 30 June 2019 and the consolidated balance sheet as at 31 December 2018 is as follows:

| Non-Current Financial Liabilities - Other Financial Liabilities | Thousands of Euros |               |
|---|--------------------|---------------|
|   | 30/06/19           | 31/12/18      |
| Leases (Note 2-b)   | 39,526             | -             |
| Refundable advances   | 35,727             | 32,929        |
| Employee benefit obligations                                    | 3,028              | 3,408         |
| Share purchase liabilities                                      | 8,376              | 8,465         |
| Other   | 2,120              | 2,972         |
|   | <b>88,777</b>      | <b>47,774</b> |

| Current Financial Liabilities - Other Financial Liabilities | Thousands of Euros |               |
|---|--------------------|---------------|
|   | 30/06/19           | 31/12/18      |
| Leases (Note 2-b)   | 13,261             | -             |
| Refundable advances   | 13,062             | 11,620        |
| Net dividend payable (Note 4) (*)                           | 24,567             | -             |
| Share purchase liabilities                                  | 1,137              | 1,137         |
| Payable to non-current asset suppliers                      | 3,036              | 9,572         |
| Other   | 108                | 1,027         |
|   | <b>55,171</b>      | <b>23,356</b> |

(\*) Including dividends payable to non-controlling interests amounting to EUR 1,327 thousand.

#### *Refundable advances*

Various research and development programmes have led to the award of certain grants to conduct research and development projects to the Group. This aid is recognised on the date it is effectively collected or, if applicable, when collected by the coordinator of the joint project. These grants consist of:

- Grants to partially meet the expenses and costs of these projects.
- Refundable advances in the form of loans, generally interest-free, which usually have an initial grace period of three years and are repaid in a period of over ten years.

Grants must be refunded together with the related interest if the R&D investments envisaged under the projects are not ultimately made.

#### *Employee benefit obligations*

At 30 June 2019, "Non-Current Financial Liabilities - Other Financial Liabilities" and "Trade and Other Payables - Other Payables" in the accompanying condensed consolidated balance sheet included EUR 3,028 thousand and EUR 2,588 thousand, respectively (31 December 2018: EUR 3,408 thousand and EUR 2,799 thousand, respectively), relating to the present value estimated by the directors of the future payments to be made to the Parent's employees who were included in the pre-retirement plan approved in 2013, or with whom hand-over contracts had been entered into. In this connection, the Group recognised an amount of EUR 922 thousand with a charge to "Staff Costs" in the accompanying condensed consolidated statement of profit or loss in the first six months of 2019 (charge of EUR 305 thousand in the first six months of 2018).

In relation to the outsourced obligations assumed with certain employees, which are detailed in Note 15 to the consolidated financial statements for 2018, future modifications thereto and the accrual for services rendered are recognised against profit or loss for the related year and, accordingly, in the six-month periods ended 30 June 2019 and 2018 an expense of EUR 1,767 thousand and EUR 1,604 thousand, respectively, was recognised under "Staff Costs".

#### *Share purchase liabilities*

As indicated in Note 2-f to the consolidated financial statements for 2018, "Share Purchase Liabilities" includes the amount payable to acquire the majority ownership interests in BWB Holdings Ltd. and Rifer S.R.L.

## 12. Provisions and contingent liabilities

### a) Breakdown

The detail of provisions and contingent liabilities is as follows:

|   | Thousands of Euros |                |
|---|--------------------|----------------|
|   | 30/06/19           | 31/12/18       |
| Long-term provisions for contingent liabilities and commitments | 45,924             | 6,877          |
| Short-term provisions   | 227,775            | 224,970        |
| <b>Total</b>  | <b>273,699</b>     | <b>231,847</b> |

### b) Long-term provisions for contingent liabilities and commitments

In the first six months of 2019, in addition to Note 2-d, EUR 1,756 thousand have been charged mainly to "Staff Costs" in the accompanying condensed consolidated statement of profit or loss (first six months of 2018: charge of EUR 1,495 thousand).

### c) Short-term provisions

"Short-Term Provisions" in the accompanying condensed consolidated balance sheet includes the provisions recognised by the Group to cover mainly warranty expenses, contractual support services and other matters arising from its business activities. The consolidated companies charged EUR 1,873 thousand to "Other Operating Expenses" in the accompanying condensed consolidated statement of profit or loss for the first six months of 2019 (first six months of 2018: EUR 901 thousand credited thereto) relating to the difference between the provisions required in this connection at 30 June 2019 and the provisions recognised at 30 June 2018. The expenses incurred in the first six months of 2019 and 2018 in connection with the provision of contractual warranty services (approximately EUR 29,704 thousand and EUR 22,129 thousand, respectively) were recognised under "Procurements" and "Staff Costs" in the accompanying condensed consolidated statements of profit or loss for the first six months of 2019 and 2018.

The changes in "Short-Term Provisions" and "Long-Term Provisions" in 2019 and 2018 were as follows (in thousands of euros):

|   | Short-Term Provisions |                               |              |                  |                             | Long-Term Provisions |
|---|-----------------------|-------------------------------|--------------|------------------|-----------------------------|----------------------|
|   | Contractual Liability | Warranty and Support Services | Litigation   | Other Provisions | Total Short-Term Provisions |                      |
| <b>Balance at the beginning of the period</b> | <b>44,919</b>         | <b>93,288</b>                 | <b>1,900</b> | <b>4,220</b>     | <b>144,327</b>              | <b>7,071</b>         |
| Changes in the scope of consolidation         | 478                   | 42,018                        | 284          | 1,776            | 44,556                      | 206                  |
| Net charge for the period                     | 13,703                | 73,473                        | 1,550        | 1,751            | 90,477                      | 1,834                |
| Amounts used charged to profit or loss        | (236)                 | (50,309)                      | (848)        | (1,180)          | (52,573)                    | (2,574)              |
| Translation differences                       | (258)                 | (552)                         | (88)         | (300)            | (1,198)                     | (1)                  |
| Transfers                                     | (294)                 | (279)                         | -            | (46)             | (619)                       | 341                  |
| <b>Balance at 31/12/18</b>                    | <b>58,312</b>         | <b>157,639</b>                | <b>2,798</b> | <b>6,221</b>     | <b>224,970</b>              | <b>6,877</b>         |
| Net charge for the period                     | (12,785)              | 44,693                        | 184          | 647              | 32,739                      | 40,296               |
| Amounts used charged to profit or loss        | (255)                 | (29,704)                      | (689)        | (218)            | (30,866)                    | (1,262)              |
| Translation differences                       | 54                    | 865                           | 22           | 92               | 1,033                       | (88)                 |
| Transfers                                     | (133)                 | (994)                         | -            | 1,026            | (101)                       | 101                  |
| <b>Balance at 30/06/19</b>                    | <b>45,193</b>         | <b>172,499</b>                | <b>2,315</b> | <b>7,768</b>     | <b>227,775</b>              | <b>45,924</b>        |

The provisions for warranty and support services relate to estimated future costs (based on historic data and technical analyses) to which the Group is committed in accordance with the warranty period provided for in the contracts.

### **13. Related parties**

The Group's "related parties" are deemed to be, in addition to the subsidiaries, associates and jointly-controlled entities, the Parent's "key management personnel" (its directors and managers, and their close family members) and the entities over which key management personnel may exercise significant influence or control.

The transactions performed by the Group with its related parties (significant shareholders, Board members and executives of the Parent and other related parties) in the first six months of 2019 and 2018 are disclosed below. The terms and conditions of the transactions with related parties are equivalent to those in transactions performed on an arm's length basis and the corresponding payments in kind were charged.

| Expenses and Income             | Thousands of Euros       |  |                       |               |
|---------------------------------|--------------------------|--|-----------------------|---------------|
|                                 | 30/06/19                 |  |                       |               |
|                                 | Significant Shareholders | Group Employees, Companies or Entities | Other Related Parties | Total         |
| <b>Expenses:</b>                |                          |  |                       |               |
| Purchases of goods and services | -                        | -                                      | 1,787                 | 1,787         |
|                                 | -                        | -                                      | <b>1,787</b>          | <b>1,787</b>  |
| <b>Income:</b>                  |                          |  |                       |               |
| Sales                           | -                        | -                                      | 27,230                | 27,230        |
| Finance income                  | -                        | -                                      | 1,035                 | 1,035         |
|                                 | -                        | -                                      | <b>28,265</b>         | <b>28,265</b> |

| Expenses and Income             | Thousands of Euros       |  |                       |               |
|---------------------------------|--------------------------|--|-----------------------|---------------|
|                                 | 30/06/18                 |  |                       |               |
|                                 | Significant Shareholders | Group Employees, Companies or Entities | Other Related Parties | Total         |
| <b>Expenses:</b>                |                          |  |                       |               |
| Purchases of goods and services | -                        | -                                      | 1,261                 | 1,261         |
|                                 | -                        | -                                      | <b>1,261</b>          | <b>1,261</b>  |
| <b>Income:</b>                  |                          |  |                       |               |
| Sales                           | -                        | -                                      | 24,379                | 24,379        |
| Finance income                  | -                        | -                                      | 923                   | 923           |
|                                 | -                        | -                                      | <b>25,302</b>         | <b>25,302</b> |

Sales to "Other Related Parties" in the first six months of 2019 and 2018 were made mainly to Ferrocarriles Suburbanos, S.A. de C.V., Plan Metro, S.A. and Ferrocarril Interurbano S.A. de C.V., in which the CAF Group holds non-controlling ownership interests along with other shareholders.

The Group's main balances with investees that had not been fully consolidated at 30 June 2019 and 31 December 2018 were as follows:

|   | Thousands of Euros |          |
|---|--------------------|----------|
|   | 30/06/19           | 31/12/18 |
| <b>Balances receivable:</b>             |                    |          |
| Trade and other receivables             | 49,533             | 74,373   |
| Loans and credits granted               | 28,302             | 26,823   |
| <b>Balances payable:</b>                |                    |          |
| Payable to suppliers and trade payables | 1,426              | 1,373    |

#### **14. Other current and non-current assets and liabilities**

The detail of the Group's "Other Assets" at 30 June 2019 and 31 December 2018 is as follows:

|                                 | Thousands of Euros |              |
|---------------------------------|--------------------|--------------|
|                                 | 30/06/19           | 31/12/18     |
| Assets for the right of return  | 3,963              | 2,684        |
| <b>Other non-current assets</b> | <b>3,963</b>       | <b>2,684</b> |
| Prepayments                     | 8,617              | 6,203        |
| Assets for the right of return  | 14                 | 140          |
| <b>Other current assets</b>     | <b>8,631</b>       | <b>6,343</b> |

The detail of the Group's "Other Liabilities" at 30 June 2019 and 31 December 2018 is as follows:

|                                       | Thousands of Euros |               |
|---------------------------------------|--------------------|---------------|
|                                       | 30/06/19           | 31/12/18      |
| Non-current contract liabilities      | 48,994             | 41,228        |
| Advances received on operating leases | 35,016             | 37,993        |
| Refund liabilities                    | 3,548              | 2,965         |
| <b>Other non-current liabilities</b>  | <b>87,558</b>      | <b>82,186</b> |
| Advances received on operating leases | 4,966              | 4,964         |
| Unearned income                       | 320                | 631           |
| Refund liabilities                    | 1,208              | 219           |
| <b>Other current liabilities</b>      | <b>6,494</b>       | <b>5,814</b>  |

Certain bus sale contracts included customer return options. If it is determined that the contract is an operating lease, the billings received in advance are recognised under "Advances Received on Operating Leases". If, on the other hand, it is concluded that the contract is a sale with a right of return, the value of the asset to be repurchased by the Parent is recognised under "Assets for the Right of Return" and the amount expected to be paid to recover the asset is recognised under "Refund Liabilities".

#### **15. Remuneration and other benefits of the Parent's directors and senior executives**

In the first six months of 2019 and 2018, the Parent recognised approximately EUR 896 thousand and approximately EUR 883 thousand, respectively, in relation to remuneration, attendance fees and life insurance coverage earned by the members of its Board of Directors, whereas the directors of the subsidiaries did not earn any amounts in this connection. At 30 June 2019 and 31 December 2018, neither the Parent nor the subsidiaries had granted any advances, guarantees or loans to their current or former directors.

Remuneration of the Parent's senior executives, per the binding definition of "Senior Executives" in the Corporate Governance Report, amounted to EUR 1,288 thousand and EUR 1,165 thousand, respectively, in the first six months of 2019 and 2018.

In the first six months of 2019 and 2018 there were no other transactions with senior executives.

## 16. Derivative financial instruments

The CAF Group uses derivative financial instruments to hedge the risks to which its activities, transactions and future cash flows are exposed, mainly risks arising from changes in exchange rates (as explained in Note 17 to the consolidated financial statements for 2018). The CAF Group arranges foreign currency hedges in order to mitigate the potential adverse effect that changes in exchange rates might have on future cash flows relating to transactions and loans in currencies other than the functional currency of the company concerned.

The breakdown of the net balances of derivatives, basically fair value hedges, recognised in the condensed consolidated balance sheet as at 30 June 2019 and the consolidated balance sheet as at 31 December 2018 is as follows:

| Measurement                             | Thousands of Euros |                 |              |              |
|---|--------------------|-----------------|--------------|--------------|
|   | Fair Value         |                 | Cash Flows   |              |
|   | 30/06/19           | 31/12/18        | 30/06/19     | 31/12/18     |
| <b>Hedges-</b>                          |                    |                 |              |              |
| USD currency forwards                   | (6,940)            | (23,945)        | (21)         | 31           |
| GBP currency forwards                   | (15,745)           | (19,552)        | 142          | -            |
| MXP currency forwards                   | (12,052)           | (14,962)        | -            | -            |
| BRL currency forwards                   | 1,111              | (2,766)         | -            | -            |
| EUR currency forwards                   | (1,158)            | (1,071)         | -            | -            |
| SEK currency forwards                   | (1,426)            | (2,331)         | -            | -            |
| SAR currency forwards                   | 1,725              | 1,218           | -            | -            |
| TWD currency forwards                   | (284)              | 798             | -            | -            |
| JPY currency forwards                   | 3,879              | 4,295           | -            | -            |
| AUD currency forwards                   | (2,954)            | 119             | -            | -            |
| COP currency forwards                   | 15                 | -               | 483          | -            |
| Currency forwards in other currencies   | 522                | (84)            | -            | (29)         |
| Forward rate agreements                 | -                  | -               | (895)        | (525)        |
| <b>Measurement at end of period (*)</b> | <b>(33,307)</b>    | <b>(58,281)</b> | <b>(291)</b> | <b>(523)</b> |

(\*) Before considering the related tax effect.

At 30 June 2019, the associate S.E.M. Los Tranvías de Zaragoza, S.A. has recognised the effect of certain swaps designated as cash flow interest rate hedges. The negative value thereof attributable to the Group amounted to EUR 4,483 thousand, net of the related tax effect.

An interest rate swap with an initial nominal amount of EUR 20 million, entered into by the Parent in 2014, expired in June 2019. In October 2018 the Parent entered into another interest rate swap with an initial nominal amount of EUR 25 million expiring on 31 July 2023.

The detail of the periods of expiry of the cash flow interest rate hedges is as follows:

| Expiry (in Currency) | 30/06/19   |            |                           |
|----------------------|------------|------------|---------------------------|
|                      | 2019       | 2020       | 2021 and Subsequent Years |
| Euribor swap (EUR)   | -          | -          | 25,000,000                |
| LIBOR swap (USD)     | 11,735,218 | 16,150,923 | 58,988,067                |



The detail of the periods of expiry of the foreign currency hedges is as follows:

| Expiry (in Currency)                  | 30/06/19       |                |                           |
|---------------------------------------|----------------|----------------|---------------------------|
|                                       | 2019           | 2020           | 2021 and Subsequent Years |
| <b>Sales hedges-</b>                  |                |                |                           |
| <b>Fair value hedges</b>              |                |                |                           |
| USD currency forwards (*)             | 385,076,142    | 69,326,857     | -                         |
| GBP currency forwards                 | 169,418,236    | 187,334,381    | 249,852,365               |
| EUR currency forwards                 | 1,978,410      | -              | -                         |
| BRL currency forwards                 | 150,967,814    | -              | -                         |
| SEK currency forwards                 | 964,858,963    | 86,664,170     | -                         |
| SAR currency forwards                 | 105,697,729    | -              | -                         |
| AUD currency forwards                 | 60,189,105     | 10,516,460     | 691,724,866               |
| TWD currency forwards                 | 77,422,500     | -              | -                         |
| MXP currency forwards                 | 2,626,484,088  | 15,934,685     | -                         |
| JPY currency forwards                 | 13,577,622,366 | 4,081,705,774  | -                         |
| TRY currency forwards                 | 10,768,377     | -              | -                         |
| ARS currency forwards                 | 122,000,000    | -              | -                         |
| ZAR currency forwards                 | 3,984,534      | -              | -                         |
| Currency forwards in other currencies | 47,047         | -              | -                         |
| <b>Purchase hedges-</b>               |                |                |                           |
| <b>Fair value hedges</b>              |                |                |                           |
| USD currency forwards                 | 18,325,232     | 29,368,736     | -                         |
| EUR currency forwards                 | 73,333,510     | -              | -                         |
| GBP currency forwards                 | 2,018,120      | 102,020,370    | 16,828,000                |
| MXP currency forwards                 | 59,767,000     | 967,819,596    | -                         |
| BRL currency forwards                 | 6,391,426      | -              | -                         |
| JPY currency forwards                 | -              | 3,294,565,540  | -                         |
| SEK currency forwards                 | 929,481,842    | -              | -                         |
| AUD currency forwards                 | -              | -              | 28,078,510                |
| <b>Purchase hedges-</b>               |                |                |                           |
| <b>Cash flow hedges</b>               |                |                |                           |
| GBP currency forwards                 | 22,981,880     | -              | -                         |
| COP currency forwards                 | -              | 48,000,000,000 | -                         |
| USD currency forwards                 | 3,144,596      | -              | -                         |

(\*) Including the hedge of a net investment in CAF USA, Inc. and in Provotren, S.A. de C.V. amounting to USD 22,300 thousand and USD 199,782 thousand, respectively.

| Expiry (in Currency)      | 30/06/18      |               |                           |
|---------------------------|---------------|---------------|---------------------------|
|                           | 2018          | 2019          | 2020 and Subsequent Years |
| <b>Sales hedges-</b>      |               |               |                           |
| <b>Fair value hedges</b>  |               |               |                           |
| USD currency forwards (*) | 435,696,252   | 77,350,432    | -                         |
| GBP currency forwards     | 179,128,784   | 112,649,300   | 95,037,543                |
| EUR currency forwards     | 6,382,596     | -             | -                         |
| BRL currency forwards     | 143,348,888   | -             | -                         |
| SEK currency forwards     | 288,037,761   | 298,123,121   | 86,664,170                |
| SAR currency forwards     | 118,132,687   | -             | -                         |
| AUD currency forwards     | 44,779,185    | 13,524,295    | 517,767                   |
| TWD currency forwards     | 126,259,537   | -             | -                         |
| MXP currency forwards     | 2,112,090,366 | 128,847,916   | -                         |
| CAD currency forwards     | 105,927       | -             | -                         |
| HUF currency forwards     | -             | -             | -                         |
| JPY currency forwards     | 9,998,385,627 | 3,694,606,739 | 4,081,705,774             |
| TRY currency forwards     | 3,712,084     | 8,896,516     | -                         |
| ARS currency forwards     | 64,840,259    | -             | -                         |
| ZAR currency forwards     | 5,312,712     | -             | -                         |
| <b>Purchase hedges-</b>   |               |               |                           |
| <b>Fair value hedges</b>  |               |               |                           |
| USD currency forwards     | 15,388,866    | 10,092,425    | 28,373,000                |
| EUR currency forwards     | 115,257,428   | -             | -                         |
| GBP currency forwards     | 2,084,454     | 500,000       | -                         |
| MXP currency forwards     | 59,767,000    | -             | -                         |
| BRL currency forwards     | 7,020,251     | -             | -                         |
| <b>Purchase hedges-</b>   |               |               |                           |
| <b>Cash flow hedges</b>   |               |               |                           |
| GBP currency forwards     | -             | 24,500,000    | -                         |
| MXP currency forwards     | -             | -             | 591,486,246               |
| JPY currency forwards     | -             | -             | 4,588,021,500             |

(\*) Including the hedge of a net investment in CAF USA, Inc. and in Provotren, S.A. de C.V. amounting to USD 22,300 thousand and USD 198,322 thousand, respectively.

In the first half of 2019 the ineffective portion of the hedging transactions charged to profit or loss of the condensed consolidated financial statements amounted to EUR 1,086 thousand mainly as a result of changes in the estimated amounts of the hedged items.

Following is a reconciliation of the remeasurement at the end of each period to the carrying amounts recognised in the consolidated balance sheet (in thousands of euros):

|                                | 30/06/19        | 31/12/18        |
|--------------------------------|-----------------|-----------------|
| Non-current assets             | 12,430          | 10,720          |
| Current assets                 | 10,625          | 5,849           |
| Non-current liabilities        | (12,687)        | (11,206)        |
| Current liabilities            | (43,966)        | (64,167)        |
| <b>Balance sheet net total</b> | <b>(33,598)</b> | <b>(58,804)</b> |
| Fair value                     | (33,307)        | (58,281)        |
| Cash flow                      | (291)           | (523)           |
| <b>Total derivatives</b>       | <b>(33,598)</b> | <b>(58,804)</b> |

## 17. Segment reporting

The criteria applied by the Parent to define its operating segments are disclosed in Note 6 to the consolidated financial statements for the year ended 31 December 2018. There were no changes in the basis of segmentation used.

The detail of revenue, by geographical area, at 30 June 2019 and 2018 is as follows (in thousands of euros):

| Revenue by Geographical Area | 30/06/19         | 30/06/18       |
|------------------------------|------------------|----------------|
| National area                | 131,820          | 93,462         |
| International area           |                  |                |
| a) European Union            |                  |                |
| Euro Area                    | 367,563          | 207,178        |
| Non Euro Area                | 370,502          | 242,425        |
| b) Others                    | 396,093          | 400,164        |
| <b>Total</b>                 | <b>1,265,978</b> | <b>943,229</b> |

The breakdown of sales, by product group and type of service provided, is as follows (in thousands of euros):

|  | 30/06/19         | 30/06/18       |
|--|------------------|----------------|
| High-speed                               | 9,372            | 22,230         |
| Regional and commuter                    | 337,509          | 376,211        |
| Metros                                   | 123,376          | 146,950        |
| Tram and light rail                      | 190,992          | 103,365        |
| Bogies, refitting and other              | 12,020           | 24,194         |
| <b>Trains</b>                            | <b>673,269</b>   | <b>672,950</b> |
| <b>Services</b>                          | <b>183,990</b>   | <b>179,282</b> |
| <b>Buses</b>                             | <b>263,544</b>   | <b>-</b>       |
| <b>Wheel sets and components (MiiRA)</b> | <b>47,466</b>    | <b>45,199</b>  |
| <b>Other</b>                             | <b>97,709</b>    | <b>45,798</b>  |
| <b>Total</b>                             | <b>1,265,978</b> | <b>943,229</b> |

(\*) Mainly civil construction, signalling and engineering contract revenue.



The reconciliation of profit (loss) by segment to consolidated profit at 30 June 2019 and 2018 is as follows:

|   | Thousands of Euros |                |                |                  |
|---|--------------------|----------------|----------------|------------------|
|   | 30/06/19           |                |                |                  |
|   | Rolling stock      | Buses          | General        | Total            |
| External sales  | 1,002,434          | 263,544        | -              | 1,265,978        |
| Inter-segment sales   | -                  | -              | -              | -                |
| <b>Total sales</b>  | <b>1,002,434</b>   | <b>263,544</b> | <b>-</b>       | <b>1,265,978</b> |
| <b>Adjusted EBITDA</b>  | <b>102,727</b>     | <b>13,077</b>  | <b>-</b>       | <b>115,804</b>   |
| Depreciation and amortisation charge, impairment and gains or losses on disposals of non-current assets | (26,104)           | (13,064)       | -              | (39,168)         |
| <b>Adjusted EBIT</b>  | <b>76,623</b>      | <b>13</b>      | <b>-</b>       | <b>76,636</b>    |
| Non-recurring items (Note 2-d)  | (38,540)           | -              | -              | (38,540)         |
| <b>EBIT</b>   | <b>38,083</b>      | <b>13</b>      | <b>-</b>       | <b>38,096</b>    |
| <b>Profit (Loss) before tax</b>   | <b>16,308</b>      | <b>(4,892)</b> | <b>(7,582)</b> | <b>3,834</b>     |
| Income tax  |                    |                |                | (16,878)         |
| <b>Profit (Loss) for the year from continuing operations</b>  |                    |                |                | <b>(13,044)</b>  |

|   | Thousands of Euros |          |                |                |
|---|--------------------|----------|----------------|----------------|
|   | 30/06/18           |          |                |                |
|   | Rolling stock      | Buses    | General        | Total          |
| External sales  | 943,229            | -        | -              | 943,229        |
| Inter-segment sales   | -                  | -        | -              | -              |
| <b>Total sales</b>  | <b>943,229</b>     | <b>-</b> | <b>-</b>       | <b>943,229</b> |
| <b>Adjusted EBITDA</b>  | <b>87,181</b>      | <b>-</b> | <b>-</b>       | <b>87,181</b>  |
| Depreciation and amortisation charge, impairment and gains or losses on disposals of non-current assets | (20,406)           | -        | -              | (20,406)       |
| <b>Adjusted EBIT</b>  | <b>66,775</b>      | <b>-</b> | <b>-</b>       | <b>66,775</b>  |
| Non-recurring items (Note 2-d)  | -                  | -        | -              | -              |
| <b>EBIT</b>   | <b>66,775</b>      | <b>-</b> | <b>-</b>       | <b>66,775</b>  |
| <b>Profit (Loss) before tax</b>   | <b>41,554</b>      | <b>-</b> | <b>(5,289)</b> | <b>36,265</b>  |
| Income tax  |                    |          |                | (18,743)       |
| <b>Profit (Loss) for the year from continuing operations</b>  |                    |          |                | <b>17,522</b>  |

### **18. Average headcount**

The average headcount at 30 June 2019 and 2018 was as follows:

|              | Number of Employees |              |
|--------------|---------------------|--------------|
|              | 30/06/19            | 30/06/18     |
| Men          | 10,031              | 7,443        |
| Women        | 1,759               | 1,274        |
| <b>Total</b> | <b>11,790</b>       | <b>8,717</b> |

## **19. Tax matters**

The Group calculated the provision for income tax at 30 June 2019 in accordance with the applicable tax legislation. On 10 May 2018 Gipuzkoa Income Tax Regulation 1/2018 was passed, which substantially changed the tax regime applicable to the tax group headed by the Parent, reducing the tax rate from 28% to 26% in 2018 and to 24% in 2019, and changing the limit on the use of tax credits and the offset of prior years' tax losses.

In relation to the tax assets recognised, the Group's directors apply a recognition policy based on an assessment of backlog.

At 30 June 2019, the Group recognised EUR 105,323 thousand under "Trade and Other Receivables - Other Receivables" in the condensed consolidated balance sheet in relation to balances receivable from public authorities for tax settlements, mainly for VAT. Also, the Group recognised EUR 49,780 thousand under "Trade and Other Payables - Other Payables" in the accompanying condensed consolidated balance sheet, mainly in relation to employee personal income tax withholdings, employer social security costs and VAT.

On 20 June 2017, the Parent was notified by the provincial tax authorities of Guipúzcoa of the commencement of partial tax audits in relation to the income tax of the Parent and of Tax Group no. 03/07/G for 2012 to 2015. Two tax inspection notices were received from the tax inspectors in March 2019, requesting additional documentation. To date, however, there has been no further response from the tax inspectors. Also, there have been no developments with respect to the appeals lodged by the Parent in relation to the audit by the Municipal Council of Beasain of the tax on erection and installation projects and construction work (ICIO) and the tax on economic activities (IAE). The Parent's directors do not expect any liabilities to arise as a result of these audits.

## **20. Explanation added for translation to English**

These interim condensed consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (Note 2-a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.